

Embracing complexity to capture Alpha

Dear Investors,

Last month we announced that our antagonist had left the stage. He was back before the interval.

On 8 July the West Asia ceasefire collapsed. Tehran declared the Strait of Hormuz shut again, Brent snapped from below USD 70 back into the nineties, and the framework we built the July letter around was obsolete inside a fortnight. We would rather say that plainly than dress it up. We were early.

What has interested us far more is how little the market charged us for it. Five months of a largely closed Hormuz has produced a barrel back near USD 80 this week, not the USD 150 the doom scenarios promised. The reason is boringly structural: our refiners never unwound the hedge. Q1 FY27 sourcing has Oman up 222%, Brazil 175% and Russia 53% year on year. OPEC+ has now completed restoring its 2023 cuts, the Turkey-Iraq pipeline has been extended, and Washington and Tehran are talking through Muscat about reopening the strait. Supply chains adapt faster than narratives do. Worth remembering the next time a headline invites us to reprice an entire allocation.

The second July risk resolved better still. The 10% Section 122 surcharge lapsed on 24 July and the USTR replaced it with a 10% Section 301 duty on forced-labour grounds, India in the 17-economy 10% tier while 43 others were assessed at 12.5%. The same rate we were already paying, a marginally better relative position, now on open-ended legal footing. The unfinished business is the second Section 301 investigation into structural excess capacity, which covers India across electronics, auto components, batteries and metals and could stack later this year. Risk deferred, not dissolved. Meanwhile the India-UK CETA entered into force on 15 July, with the EU agreement to follow in early 2027, roughly 91% of our export value freed from day one.

Beneath all of it, the domestic engine simply kept running. FY26 closed at 7.7% real growth, the fastest major economy for a third consecutive year. June IIP printed 7.3%, the strongest in nearly two years, capital goods up 14.2%, with 19 of 23 manufacturing groups expanding. The Q1 fiscal accounts are the cleanest first quarter we have seen in years, with a primary surplus of Rs 38,581 crore, a revenue deficit of essentially nil, and 27.8% of the Rs 12.22 trillion capex target already spent, up 24% year on year. July GST at Rs 2.11 lakh crore was the strongest non-April print on record, and for the first time this year the domestic leg (+10.1%) did the work rather than the oil import bill.

Now the parts we would not put in a brochure.

The credit boom is not building anything. Bank credit compounds at 17.7% against 12.7% deposit growth, a 500 basis point gap now in its fifth quarter, but gold loans are up 105.5%, lending to NBFCs 33.7%, and housing, a sixth of the entire book, just 10.9%. Gross fixed assets across 2,383 listed companies grew 5.8% in FY26 against 7.4% in FY25. Capacity is tight, money is flowing, and corporates still are not pouring concrete. Public capex is carrying this cycle alone, and that number, not the credit growth rate, is the one we would put in front of an investment committee.

Services are cooling: the July flash services PMI fell to 53.1, a 53-month low, and the new Index of Services Production shows double-digit sub-sectors halving from 14 in April to 8 in May. Q1 FY27 delivered roughly 18% revenue growth against a 0.2% decline in profits, so far. Demand is fine, margins were not, on account of the obvious supply constrain caused due to the West-Asia war. And the monsoon is genuinely unresolved: June was the driest in over a decade at 40% below normal, July repaired most of the damage, but the season still runs some 12-13% short, with Punjab at -38%, Haryana -31% and Uttar Pradesh -28%, El Niño in play against an August forecast of 97% of the long-period average.

Which brings us to this morning. June CPI at 4.38% was a sixth consecutive monthly rise and the highest of the rebased series, yet the MPC held at 5.25% unanimously, kept its neutral stance, raised FY27 growth to 6.7% and trimmed FY27 inflation to 5.0%. The Governor's framing matters more than the numbers: the rise is food and fuel, there is little sign of generalisation, and core excluding precious metals remains benign, precisely the measure our debt desk argued would become the operative one. The Committee wants greater clarity before moving in either direction. We read an extended pause, and we have deliberately built a book - corporate paper and CDs at the short end end, 14-year-plus government bonds at the other - where the answer barely matters. Our one honest worry sits in Washington rather than Tehran: the US two-year is above its recent peak and the new Fed leadership has read more hawkish than the market was positioned for. That, not oil, is the binding constraint on flows.

Flows have nonetheless turned. FPIs bought Rs 20,199 crore of Indian equities in July after four brutal months, though two-thirds arrived through the primary market, so we would not yet call it a verdict. The more durable fact is that domestic institutions now own a record 21% of the Nifty 500 against a record-low 17% for foreign investors. The question of who sets the tone in this market has been settled.

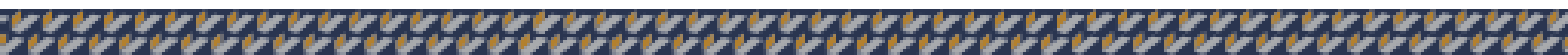
So we hold our Aggressive stance. Large and Mid caps sit roughly fairly valued; we express conviction there, with an overweight, and we keep staggering deployment rather than sprinting. A beta of 0.49 and downside capture of about 73% are how we intend to keep earning the right to be aggressive.

Last month we wrote that conviction is best worn with a seatbelt. Within days, the car swerved. We still remain optimistic and we remain buckled.

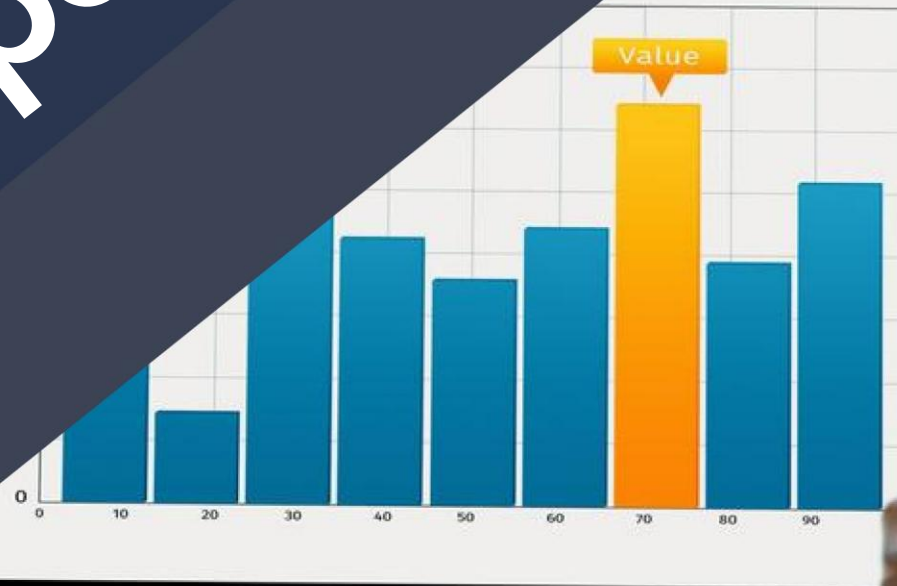
With thanks, as always, for your trust and partnership.

Best regards,

Siddharth Jadeja



Investment Strategy Report





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KILIKA CAPITAL



WHO WE ARE?



ABOUT US

Kilika Capital is a research-driven investment firm specializing in deep research and analysis to identify high-quality financial products for sophisticated investors.

OUR MISSION

At Kilika Capital, our sole mission is to generate Alpha for our investors.

MEET OUR LEADERSHIP TEAM – THE DREAM TEAM!

At Kilika Capital, we believe that great businesses are built by exceptional people. Our team brings a mix of experience, precision, and creativity that sets us apart, but what truly defines us is our shared passion for delivering results.



Siddharth Jadeja, CFA – The Strategist

Our managing partner, Siddharth Jadeja, is the calm, analytical anchor of Kilika Capital. A CFA charter holder and an MBA in finance, Siddharth comes with over 15 years of experience in a variety of roles ranging from credit risk, equity research, corporate banking, structured finance, and fund management at giants like HDFC Bank, Edelweiss Capital and Nuvama to name a few. He's been the brains behind countless deals, with the kind of market insights you'd bet on any day. Whether it's breaking down complex businesses or analysing sectors or structuring assets, Siddharth's expertise in credit and risk ensures our ship sails smoothly. Investors trust him, and so do we – his knack for turning numbers into actionable results through rigorous analysis is *nothing short of magic*. Siddharth, a passionate sports enthusiast who has played cricket at the state level, brings the same unwavering discipline and never-give-up attitude to Kilika Capital.



Bhavya Bundela– The Crunch Time Queen

Bhavya Bundela doesn't just crunch numbers, she commands them. With over six years of steering high-stakes financial reporting and corporate finance projects across global giants like KPMG and Danone, she's been the secret sauce behind IPO-prep DRHPs, seamless Ind AS/IFRS transitions, and multi-industry makeovers. From decoding financials of companies to leading XBRL missions like a boss, Bhavya brings spreadsheet sorcery, project precision, and presentation prowess all rolled into one. Whether it's wrangling audits, forecasting like a finance oracle, or managing teams with flair, she gets it done, and makes it look easy. Fluent in balance sheets, budgets, and good vibes.

WHO WE ARE?



Smitha Iyer – The Operational Hawk

If you ever wonder who keeps our house in perfect order, meet Smitha Iyer, the head of operations and our very own perfectionist-in-chief. Chemical Engineer, an alumna of Welingkar Institute Of Business Management, Smitha is an MBA in finance with over 8 years of experience in giants like ICICI Prudential and Future Generali. She took a short break to embrace motherhood (shoutout to her little champ, Devamsh!) And returned with twice the tenacity. She hounds the AMCs, dots every i, and crosses every t—no document or process escapes her eagle eye. Sure, her insistence on perfection might leave you a little exasperated, but when you realize that clean operations mean safety, you'll be grateful she's on your side.



Piyush Sharma – The Creative Wizard

Meet Piyush Sharma, our research lead and the youngest brain in the room—but don't let that fool you. Armed with an MBA and a flair for creativity, Piyush lives and breathes financial models. Whether it's running a Monte Carlo simulation, dissecting a mutual fund, creating a portfolio company DCF model, or rethinking how investor portfolios are structured, he's always cooking up something extraordinary. Watching Piyush and Siddharth brainstorm together is like watching a symphony of numbers—a mix of youthful enthusiasm and seasoned experience. For Piyush, Kilika Capital isn't just a job; it's a playground for pushing the boundaries of quantitative finance, a platform to challenge conventions, explore new paradigms, and redefine what's possible in a financial model. Who says spreadsheets can't be fun?



Harris Lunis – The Fundamentals Detective

Harris Lunis is a research-driven finance professional with a sharp eye for fundamentals and a curiosity that extends well beyond the balance sheet. Armed with a Master's in Finance, he specializes in deep-dive sector research, financial modelling, and valuation frameworks – turning complex data into clear, investment-ready insights. Backed by a strong academic record and CA Inter, Harris brings structure, rigor, and consistency to financial statement analysis, forecasting, and valuation. He keeps a close watch on global markets, macro indicators, and geopolitics, with a particular interest in how U.S. policy decisions ripple through the global economic system. When he's not dissecting companies or tracking indices, Harris is likely on the field playing cricket or football, a discipline that mirrors his approach to investing: patient, precise, and long-term oriented. His analytical mindset and fundamentals-first thinking fit seamlessly with our firm's long-term investment philosophy.

Together, we're not just a team; we're partners in your financial journey. We bring experience, attention to detail, and a touch of creative flair to everything we do. Whether it's operations, research, or strategy, rest assured -we've got your back. After all, when we win, you win. And we're in it for the long run.



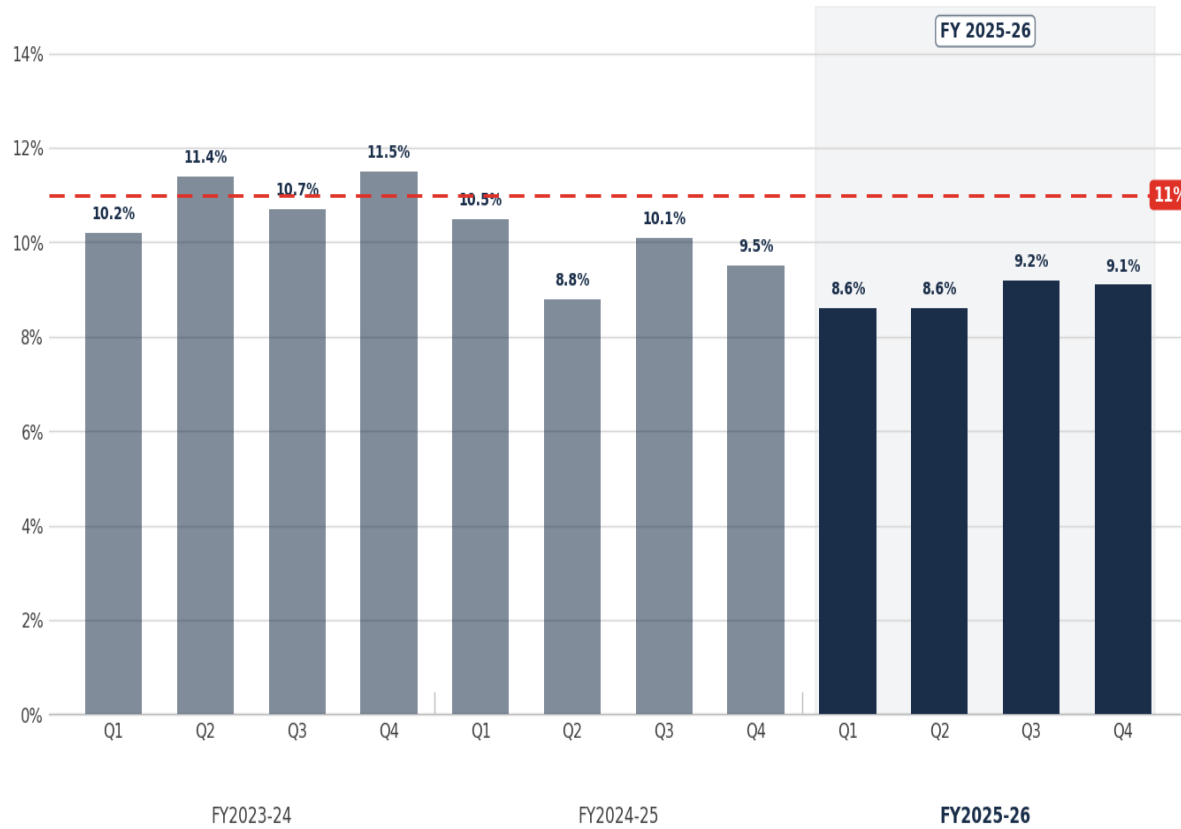
Macro-Economic Outlook



1. GDP (Gross Domestic Product)

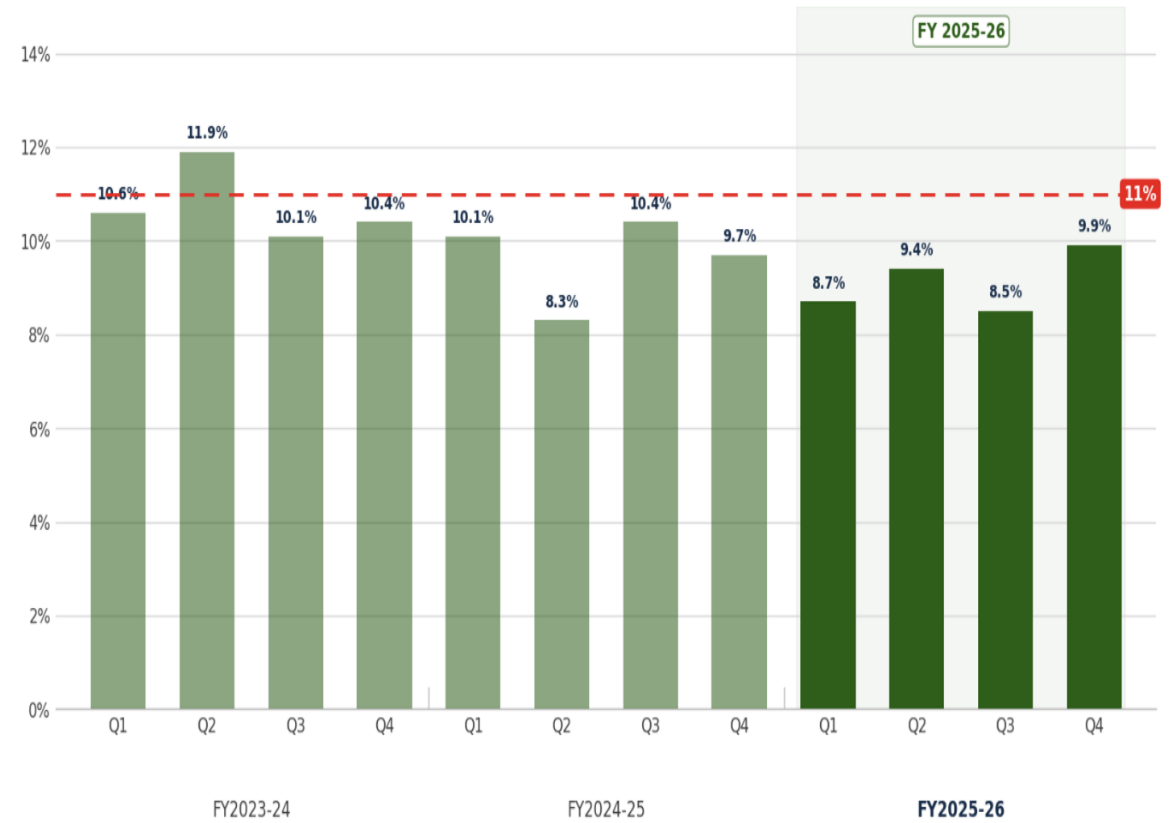
GDPn YoY % | FY2023-24 to FY2025-26

■ GDPn ■ GDPn LTA %



GVAn YoY % | FY2023-24 to FY2025-26

■ GVAn ■ GVAn LTA %





The Headline Print: Reading 7.8% Correctly

- **India's real GDP grew at 7.8% YoY in Q4 FY2025–26**, the January–March 2026 quarter, a modest sequential easing from 8.0% in Q3 but comfortably above the Long-Term Average (LTA) of roughly 6.8–7.0%. With this print, **full-year FY2025–26 real GDP growth lands at 7.7%** – up from 7.1% in FY2024–25 – keeping India the **fastest-growing major economy** for a third consecutive year.
- Context matters. These are the **Provisional Estimates (PE) released by MoSPI on 5 June 2026**, the first read to incorporate full Q4 actuals, and they revise the full year up versus the Second Advance Estimates of February. Crucially, the Q4 story is **investment-led strength meeting a high export base** – domestic momentum held firm even as global trade frictions and the energy shock bit.

Demand-Side Drivers

- **Gross Fixed Capital Formation (GFCF) is the standout at 10.8% YoY in Q4**, the strongest quarterly investment print of FY26 and a clear step-up from 8.2% over the full year. Machinery & equipment imports surging **24.9% YoY** corroborate a genuine private-plus-public capex revival, not merely government front-loading.
- **Private Final Consumption Expenditure (PFCE) grew 7.1% in Q4**, sustaining the FY26 full-year pace of 7.7% – the strongest consumption year in three. Rural demand stayed resilient on a healthy harvest and easing food inflation, while urban spending normalised after the post-pandemic surge.
- **Exports grew just 3.7% YoY in Q4 (real)**, the softest quarter of the year, as the Strait of Hormuz disruption, elevated freight, and softening global IT spend weighed on goods and services shipments alike. Imports decelerated sharply to 1.9%, leaving net exports a smaller drag than feared.

Closing the Year: What the Provisional Estimates Confirm

- The 5 June 2026 PE release completes the FY2025–26 picture on the **rebased 2022–23 series** (adopted 27 February 2026). Real GDP reaches **₹323.12 lakh crore** and nominal GDP **₹346.36 lakh crore**, with **growth of 7.7% and 8.9% respectively**. **Real GVA grew 7.9% and nominal GVA 9.1%**.

Where the Growth Came From

- The **secondary and tertiary sectors carried the year, expanding 8.8% and 9.3% in real terms**, while the **primary sector moderated to 3.2%** as **agriculture normalised off a strong FY25**. Three blocks – **Manufacturing, Trade/Hotels/Transport, and Financial/Real Estate/Professional Services** – **printed double-digit nominal growth**.
- **Manufacturing real GVA rose 10.7% for the full year** even as Q4 cooled sharply to 7.3%, reflecting a high base and softer commodity-linked value-add late in the year.
- **Tertiary activity accelerated through the year, ending at 9.9% in Q4**, with **Trade, Hotels & Transport the single strongest sector at 12.5%** – a travel, logistics and digital-services surge.
- **Net taxes grew 6.4% in real terms**, a touch slower than GVA; nominal net taxes rose 6.6% as subsidy outgo (fertiliser +21.7%) stayed elevated.
- **High-frequency indicators validate the print: finished steel consumption +10.4% and cement +8.2% in Q4, commercial-vehicle sales +19.0%, and CGST collections +9.0% – a broad-based, formal-economy expansion.**

The Full-Year Scorecard: FY25 vs FY26

- The table below summarises the FY2025–26 outturn against FY2024–25. The standout is the **real acceleration alongside a softer nominal print – a function of a lower deflator, i.e. disinflation rather than weaker volumes**.



Metric	FY2024-25 (FRE)	FY2025-26 (PE)	Δ Change
Real GDP Growth	7.1%	7.7%	+0.6 pp
Nominal GDP Growth	9.7%	8.9%	−0.8 pp
Real GVA Growth	7.3%	7.9%	+0.6 pp
Real GDP (₹ lakh cr)	299.89	323.12	+7.7%
Per Capita GDP (₹)	2,12,979	2,27,447	+6.8%

The key narrative: **the secondary and tertiary sectors led FY2025–26**, with **manufacturing and financial/real-estate services driving the acceleration**, while the **primary sector slowed to 3.2% on an agricultural base effect**. For equity investors, the FY26 outturn confirms a **capex- and services-led expansion** rather than a consumption-only story.

What This Means for Key Ratios

- GDP Deflator: The **nominal-real wedge narrowed to ~1.2pp for the full year** (8.9% nominal vs 7.7% real), the tightest in several years. **This signals genuine disinflation and keeps debt/GDP optics honest.**
- Per-Capita Income: Per-capita GDP rose to **₹2,27,447 (+6.8%)** and per-capita NNI to ₹1,93,480, keeping India on track toward the US\$3,000 per-capita threshold under the rebased series.
- Investment Intensity: **GFCF held at 32.3% of GDP**, with the Q4 10.8% surge pointing to a **firmer FY27 investment base — relevant for capex-gearred sectors and the construction multiplier.**

Sectoral Performance – The Full Picture

- The breadth of FY26 growth is its defining feature, but **Q4 marks a rotation: manufacturing cooled while services and construction strengthened. Seven of eight sectors still posted positive momentum into the final quarter — a laggard rotation, not a broad slowdown.**

Sector	Q2 FY26	Q3 FY26	Q4 FY26	Trend	Assessment
Manufacturing	12.7%	12.8%	7.3%	↓ Cooling	Sharp Q4 slowdown; high base
Construction	8.9%	6.7%	8.4%	↑ Firm	CapEx multiplier intact
Financial, RE & Prof. Svcs	10.3%	11.6%	10.4%	↑ Strong	Credit + real-estate strength
Trade, Hotels, Transport	10.5%	11.2%	12.5%	↑ Accelerating	Travel & logistics surge
Public Admin & Defence	5.4%	4.9%	5.8%	→ Steady	Govt spending firm
Agriculture & Allied	2.7%	1.7%	3.6%	↑ Rebounding	Rabi-led recovery
Electricity & Utilities	3.6%	1.5%	4.1%	↑ Recovering	Demand pick-up
Mining & Quarrying	6.1%	4.7%	5.4%	→ Steady	Output holds up



Manufacturing: From Star to Soft Patch

- **At 7.3% YoY in Q4, manufacturing slowed markedly** from 12.8% in Q3 and 12.7% in Q2, **though the full year still printed a robust 10.7%**. The deceleration reflects an **unfavourable high base, softer export demand, and commodity-linked value-add compression** under double deflation late in the year. **This is a cyclical cooldown, not a structural reversal** — FY26 manufacturing remained the strongest in the new series.

Agriculture: A Late Rebound

- **Agriculture grew 3.6% in Q4**, rebounding from a soft 1.7% in Q3 and lifting the full-year primary print to 3.2%. A **favourable Rabi harvest** and **total food-grain production up 9.6% in Q4** (cereals +10.5%) underpinned the recovery. The rural impulse — **visible in tractor and two-wheeler offtake** — **should carry into early FY27**.

Services: The New Engine

- **The trade, hotels and transport cluster surged to 12.5% in Q4**, its strongest print of FY26, on travel, tourism and logistics strength (international air traffic +11.1%). **Financial, real estate and professional services held double-digit at 10.4%, sustained by 13–14% credit growth and resilient real estate**. Services, not manufacturing, closed FY26 as the growth engine.

Policy Implications – RBI, Fiscal & Beyond

- **Reserve Bank of India: Room, With One Eye on Oil**
- **A 7.8% Q4 real print with a ~1.2pp nominal-real wedge** — benign domestic inflation — would ordinarily give the RBI clear easing room. But the **energy shock complicates the call**: with Brent elevated and the rupee under pressure, the MPC must weigh growth support against imported-inflation risk. Durable-liquidity tools (CRR, OMOs) are the more likely lever than aggressive rate cuts.
- **Fiscal Policy: Consolidation Made Easier**
- **The capex-first stance is validated by the Q4 GFCF surge to 10.8%; construction (8.4%) and public administration (5.8%) confirm the multiplier is firing**. With nominal GDP at ₹346.36 lakh crore, the **deficit-to-GDP ratio improves optically** even at a constant absolute deficit, giving the government room to sustain capex intensity into the FY2026–27 Budget while still consolidating.

India vs The World – The Alpha Story

- **7.7% full-year real GDP growth** in a world where the US is expanding ~2.5%, the Eurozone is stagnating at 0.8–1.2%, China is defending a 4.5–5.0% floor, and Japan struggles near 1% leaves India the standout major economy — now with an **accelerating, broad-based and rebased data series** that removes a longstanding credibility discount.
- **For fixed-income investors: A higher, cleaner nominal GDP base lowers the debt/GDP ratio** and **supports India's sovereign-credit narrative** within global bond indices (JPMorgan, Bloomberg) — incrementally positive for long-end yields, the energy-driven fiscal and CAD risk notwithstanding.
- **For equity investors: FY26 confirms the rotation markets had already begun pricing — capex, financials, real estate and travel/logistics over commodity-linked manufacturing**. The **Q4 manufacturing soft patch is a tactical caution, not a thesis breaker**.



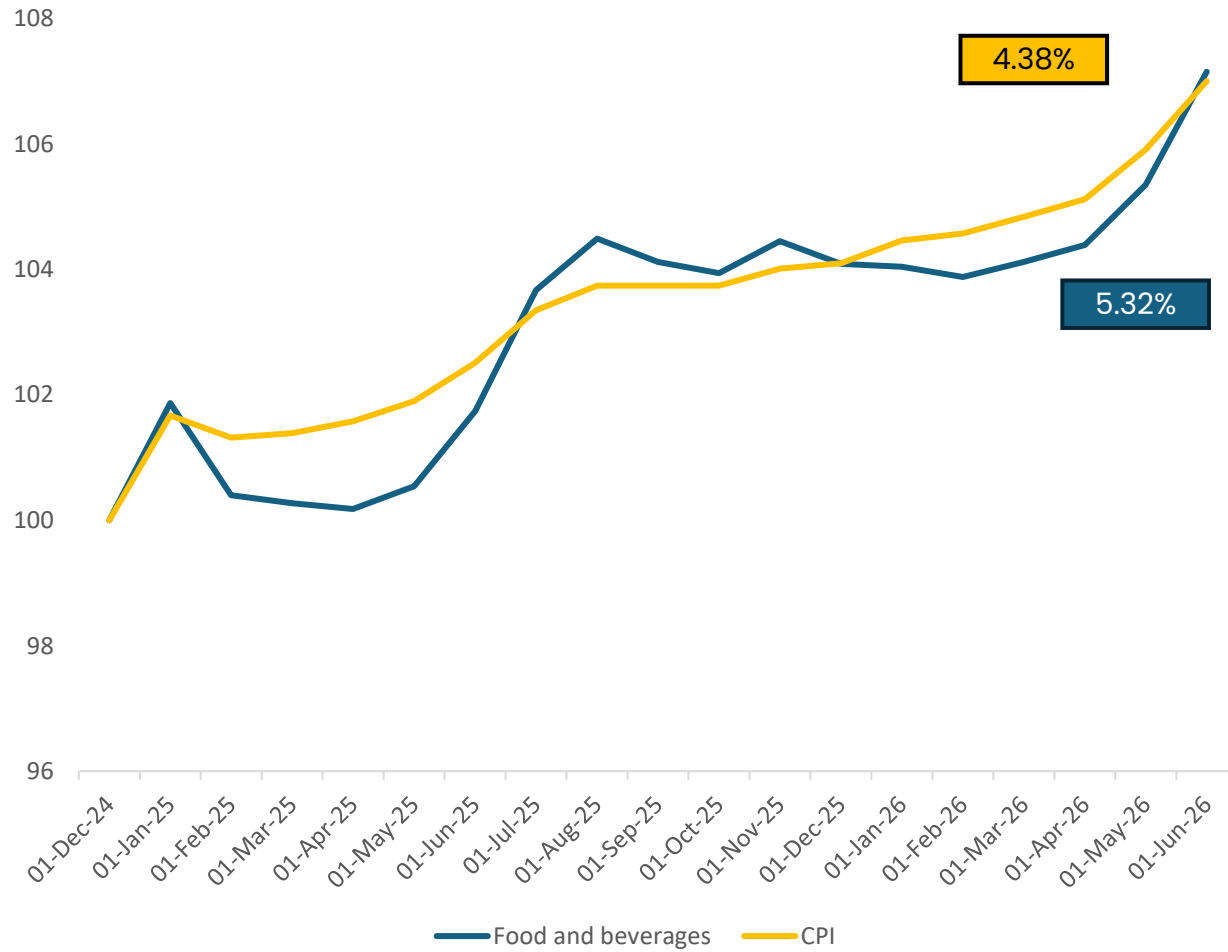
Signal	Theme	Implication for Portfolios
POSITIVE	Investment & CapEx Cycle	GFCF surged 10.8% in Q4 and machinery imports +24.9%; a firmer investment base supports construction, capital goods and financiers into FY27 if the Budget holds capex near 3.4% of GDP.
POSITIVE	Services Leadership	Trade, hotels & transport (12.5%) and financial/real-estate services (10.4%) closed FY26 as the growth engine; travel, logistics and credit-linked names remain well-placed.
WATCH	Manufacturing Soft Patch	Q4 manufacturing cooled to 7.3% from 12.8% on a high base and soft exports. Watch whether this is one-quarter noise or the start of a slower export-linked phase.
WATCH	Geopolitical Pressures	The ceasefire and reopening of the Strait of Hormuz have eased pressure on crude prices, inflation, the rupee, and India's current account deficit. However, with India importing over 85% of its crude needs, any renewed escalation remains a key macro risk for FY27.
RISK	Exports, Tariffs & Base Effects	Q4 exports slowed to 3.7%; fresh US tariff actions on electronics/pharma and a high FY26 base raise the bar for FY27 export-led growth.

Our 12-Month View: Constructive with Elevated External Risks

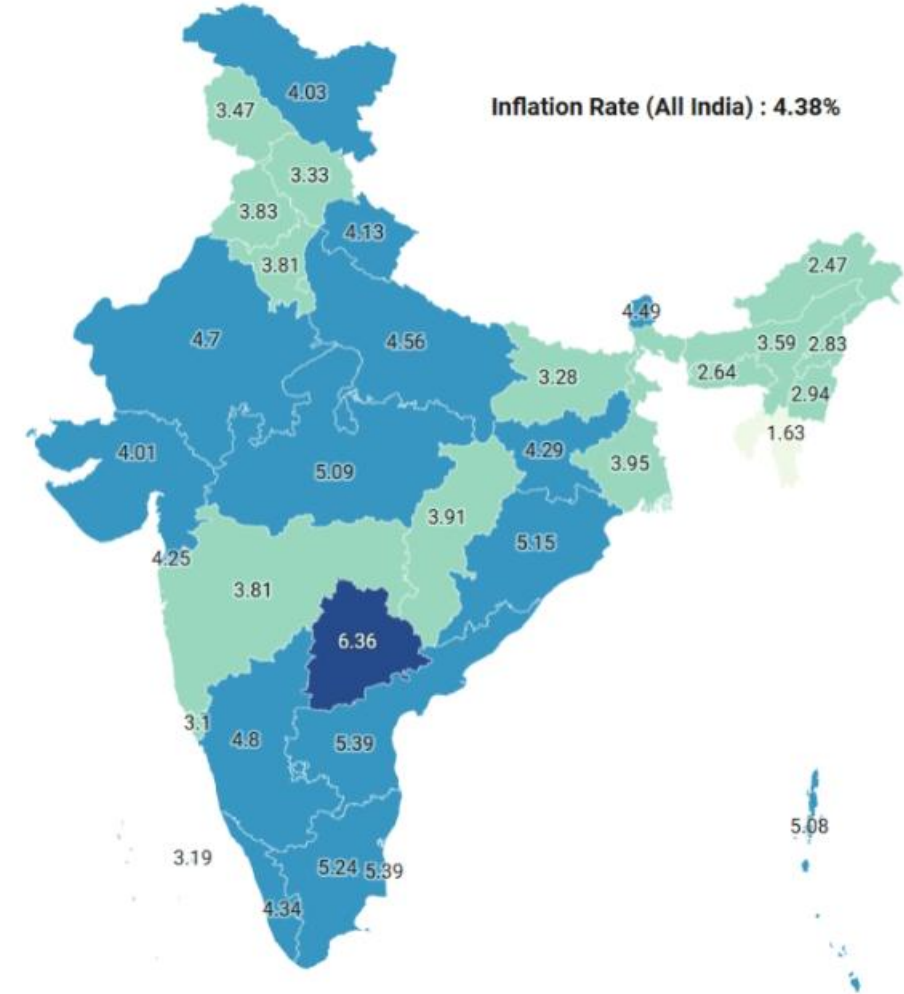
India's macroeconomic outlook remains underpinned by resilient domestic demand, sustained government capital expenditure and a gradual recovery in private investment. However, renewed geopolitical tensions in the Middle East, elevated crude oil price volatility and recent U.S. tariffs on Indian exports have increased external risks to inflation, the current account deficit and export momentum. A near-normal monsoon is expected to support rural demand and moderate food inflation. Against this backdrop, we expect the RBI to maintain a neutral, data-dependent policy stance, balancing growth support with inflation and external stability. Our base case remains constructive, with FY27 GDP growth projected at 6.5–7.0%, while acknowledging that external risks have become more pronounced.

2. Inflation

CPI & CFPI



Inflation Rate
< 2 2-4 4-6 ≥ 6





No Longer Sneaking: CPI Clears the 4% Line as Food and Fuel Take Charge

Headline

- **Headline CPI inflation rose to 4.38% in June 2026, up from 3.93% in May 2026 and the highest reading since the rebased series began in January 2026.** The 45 basis point monthly acceleration matches May's pace and marks a sixth consecutive monthly rise, from 2.74% in January 2026 through 3.21%, 3.40%, 3.48% and 3.93%. The print now sits clearly above the RBI medium term target of 4%, and in our reading the breach confirms the direction we flagged last month rather than surprising it.
- **We called May 2026 the last comfortable print, and June 2026 has validated that call.** The disinflation that defined FY26 has fully unwound, and the drivers behind the June rise, **a broadening food impulse and continued fuel pass through, are supply side and slow to reverse.** The sub 4% era is, in our view, firmly behind us.

Food

- **Food inflation reaccelerated again, with the Consumer Food Price Index at 5.32% in June 2026 against 4.78% in May 2026, while food and beverages rose to 5.05%.** The mix shifted rather than eased. Tomato inflation cooled to 31.92% in June 2026 from 48.43% in May 2026, but ginger jumped to 50.41% from 32.50%, and potato and peas stayed in deep deflation at minus 20.34% and minus 9.67%. **The pressure is broadening beyond a few vegetables into the wider basket.**
- **The food risk now hinges squarely on the monsoon.** June 2026 was among the driest on record with rainfall roughly 40% below normal, kharif sowing has run behind last year into early July, and, as discussed under Services, menu repricing threatens to convert a seasonal shock into a persistent one. **We read food as a clear upside risk into Q2 FY27.**

Core and Underlying Pressures

- **Underlying inflation remains distorted by precious metals rather than by broad demand.** The personal care, social protection and miscellaneous goods division ran at 16.72% in June 2026, still the highest of any broad division, driven by silver jewellery at 133.21% and gold, diamond and platinum jewellery at 36.82%. **These are global price and rupee effects, not domestic demand signals,** and although the metals impulse has eased from May it still flatters any naive ex food, ex fuel measure.
- **What concerns us more is the hardening in transport and services. With the transport division swinging to 4.31% in June 2026 and freight sensitive categories now reflecting the earlier fuel hikes, we expect the underlying measure to firm through Q2 FY27 even as metals volatility partially unwinds.**

The Rural-Urban Divergence

- The national figure masks a widening gap. **Rural CPI was 4.74% in June 2026 against urban CPI at 3.92%, an 82 basis point spread that has widened from 72 basis points in May 2026. Rural food inflation at 5.45% also ran ahead of urban at 5.09%. Rural households carry a higher food and fuel weight and have fewer substitution options, so the same shock lands harder outside the cities.**
- We flag this because the rural skew complicates the policy read. **A headline above target understates the inflation actually experienced by the rural consumer, and a deficient monsoon would compress rural incomes precisely as rural prices accelerate.**



Housing Holds Steady, but Watch the Margins

- **Housing inflation stayed contained at 2.10% in June 2026, with rural housing at 2.66% and urban at 1.90%.** It continues to act as a stabiliser well below the headline, and is the one major division insulated from the crude and currency channel driving the rest of the index. We do not see it as a near term risk and expect it to stay range bound.

State Dispersion

- **Regional dispersion is wide.** Of 36 states and union territories, around eleven printed above the national rate in June 2026. Telangana again led at 6.36%, extending its run as the highest inflation state, while Mizoram was lowest at 1.63%. The southern and eastern belt sits clearly above the all India figure, and Delhi remains notably soft at 2.96%.

Services

- **Services inflation is the sticky tell we watch most closely. Restaurants and accommodation rose to 6.91% in June 2026 from 5.75% in May 2026, reflecting input cost pass through, notably LPG and food, into menu prices. Once services repricing occurs it rarely reverses, and it feeds inflation expectations more durably than a vegetable spike.**
- With restaurant inflation now firmly through 6% and still climbing, **we read the pickup as the mechanism through which a supply shock becomes embedded,** and the case for treating current pressures as transitory has weakened materially.

Crude and the Import Channel

- **The fuel impulse remains the most important development in this print.** The transport division accelerated to 4.31% in June 2026 from 1.75% in May 2026, with operation of personal transport equipment at 7.35% and goods freight at 7.70% as the earlier petrol and diesel hikes fed through. **With India importing over 85% of its crude and the rupee near 95 to 97 per dollar, every move in global crude is amplified in rupee terms.**
- **The relief we noted last month has proved short lived.** The interim US-Iran understanding that pulled Brent back to pre war levels in late June broke down, with renewed strikes through mid July, Iran declaring the Strait of Hormuz closed, and Brent rebounding into the high 90s per barrel. With the strait now partially open and crude back to 80 levels, the situation still seems volatile. **The crude and currency channel remains the dominant upside risk to the trajectory.**

Monsoon and the Kharif Swing

- **The monsoon is the second swing variable, and it began badly.** June 2026 rainfall was roughly 40% below normal, one of the driest Junes on record, before the system revived to cover the country by early July, and kharif sowing has lagged last year's pace. With El Nino conditions prevailing and below normal July rainfall expected, we treat the season as currently adverse: **a weak or poorly distributed monsoon would keep food elevated into the second half, even as a strong July and August recovery could still rescue the sowing window.**



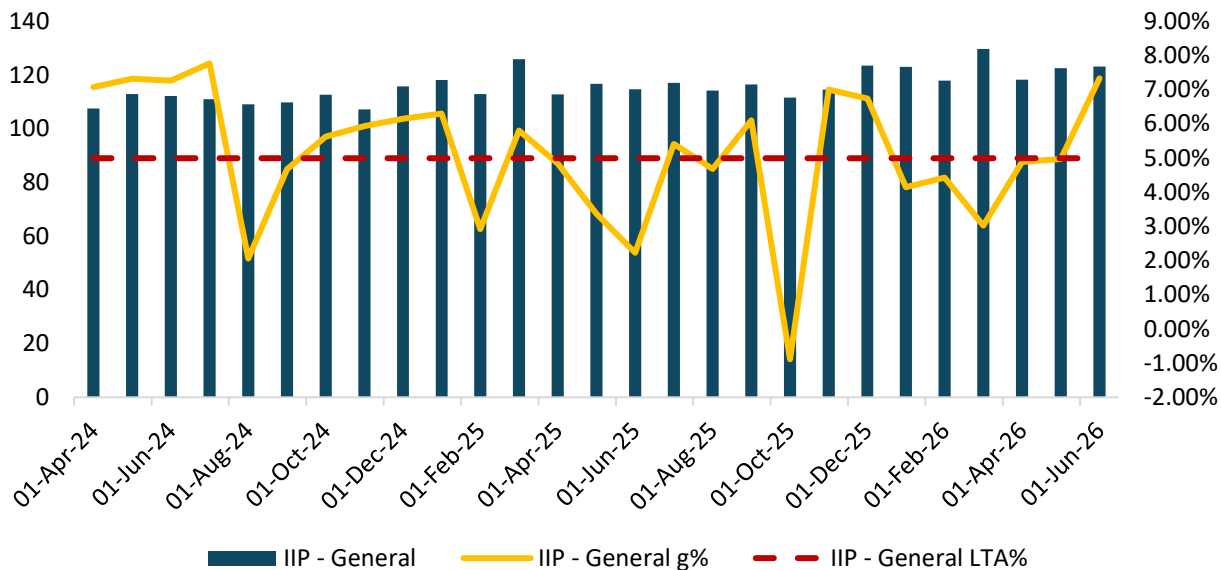
What Lies Ahead – Momentum Has Turned and the Comfortable Phase Is Behind Us

Several factors will determine whether the inflation trajectory tracks the RBI's baseline or breaks higher.

- **The RBI held the repo rate at 5.25% at its June 2026 meeting and retained a neutral stance, appropriate for a print then still below target with the fuel impulse only beginning to transmit. Alongside the hold, it lowered its FY27 GDP growth projection to 6.6% from 6.9% and lifted its FY27 CPI projection to 5.1%, with the quarterly path rising from 4.2% in Q1 to 5.1% in Q2 and peaking at 5.9% in Q3 FY27, within touching distance of the 6% upper tolerance band.**
- **With an unfavourable base, our base case now sits at the firmer end of that trajectory.** With June 2026 already through 4% and the fuel and food impulses intact, we expect the headline to keep climbing as pass through completes, **with the monsoon and West Asia war the decisive swing variables for the second half.**
- **We view the easing cycle as complete and judge the balance of risks tilted toward tightening rather than further cuts over FY27. The comfortable phase of the inflation cycle is, in our assessment, behind us.**

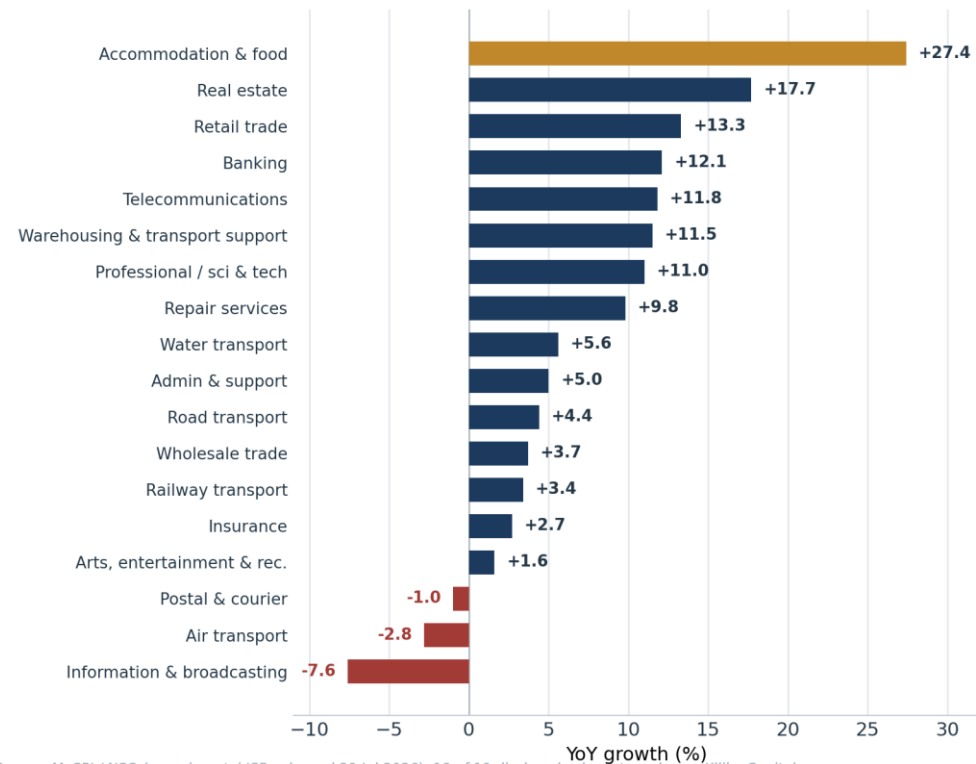
3. IIP & ISP

IIP - Industry

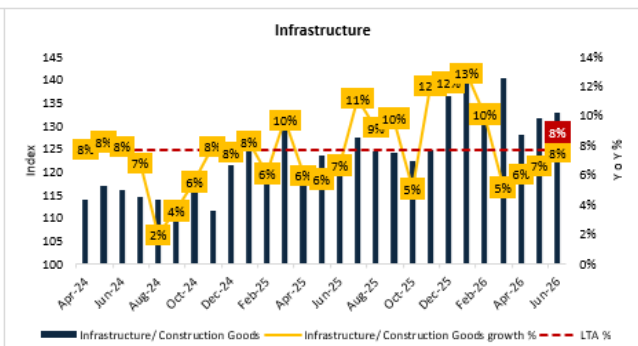
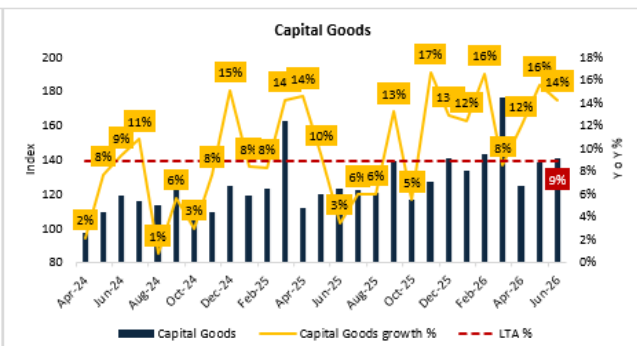
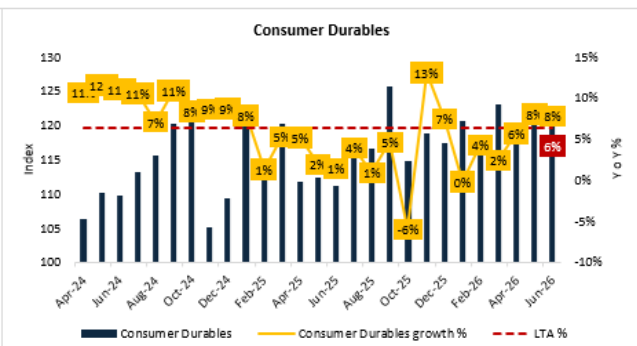
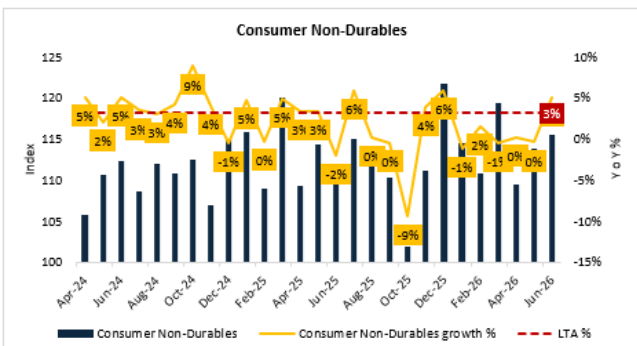


Services output grew broadly in May — 16 of 19 sub-sectors positive

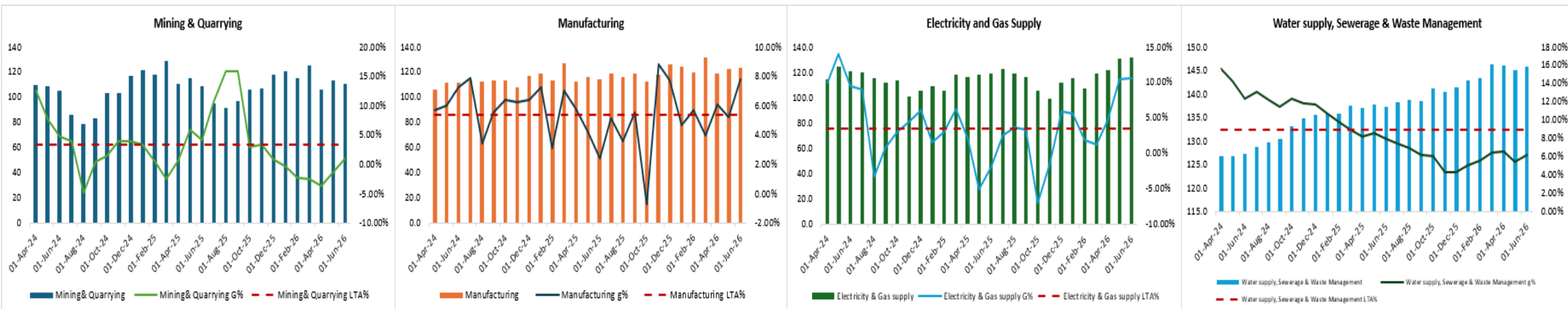
Index of Services Production, sub-sectoral YoY % — May 2026 (trial series, base 2024-25)



Source: MoSPI / NSO (experimental ISP, released 29 Jul 2026). 18 of 19 disclosed sub-sectors shown. Kilika Capital.



Source: Internal assessment based on RBI DBIE data



India IIP Deep Dive

Industrial output: a strong headline, genuinely

- IIP grew 7.3% YoY in June, up from a revised 5.0% in May and the fastest in nearly two years** (index 123.1 vs 114.7, new 2022–23 PPI-deflated base). It is directional, not a spike — the trajectory ran 3.2% → 4.9% → 5.0% → 7.3% from March and **breadth improved to 19 of 23 manufacturing groups, giving Q1 FY27 a clear step-up** from the sub -2% of Q1 FY26. **Caveat: June 2025 was weak (~1.5%), so part of the print is base; we read the underlying run-rate nearer 5–6%.**

Power and manufacturing carried the quarter; mining lags

- Manufacturing (76% weight) grew 7.8% yoy** and electricity/gas 10.6% yoy, with water/waste at 6.1% yoy; mining lagged at 1.0% yoy (from -1.6% yoy). **The power strength is partly hot-summer and base, so manufacturing at 7.8% yoy, broad rather than sub-sector-driven is the cleaner signal.**
- Within manufacturing, the load-bearers were electrical equipment (+34.0% yoy), motor vehicles (+17.5% yoy) and food products (+10.8% yoy) — **the electrical-equipment surge is the real-economy footprint of the grid and data-centre build-out.**

Investment goods lead; mass-consumption staples stay soft

- The cut is investment-led: capital goods +14.2% yoy (steepest of the six), intermediate +9.3% yoy, consumer durables +7.7% yoy, infra +7.5% yoy.** Every category beats a year ago, when primary (-3.0% yoy) and non-durables (-0.4% yoy) were shrinking, the **signature of a durable capex upcycle. The weak link is mass consumption: consumer non-durables at 4.9% yoy, the rural-proxy staples, still lag.**



Services get a hard number: the new Index of Services Production

- The month's bigger structural event is that services finally have a monthly output index. MoSPI launched the Index of Services Production (ISP) on 14 July (April data), then May on 29 July — the services counterpart to the IIP, closing India's largest data blind spot given services are over half of GVA. It is a GST-driven, fixed-weight volume index (base 2024-25) covering 19 sub-sectors (~60% of formal services, expanding toward ~80%). It is experimental and sub-sectoral only — no aggregate headline yet — so we read it by breadth.
- **In May, 16 of 19 sub-sectors grew, 8 in double digits — led by accommodation & food (27.4%, index 148.9), real estate (17.7%), retail trade (13.3%), banking (12.1%) and telecom (11.8%); the three fallers were information & broadcasting (-7.6%), air transport (-2.8%) and postal/courier (-1.0%). Treat magnitudes cautiously: on a fresh GST-based series, part of the high growth is formalisation, and railway/banking/insurance are provisional. The usable signals are breadth and direction.**

Hard (ISP) and soft (PMI) agree: services are cooling

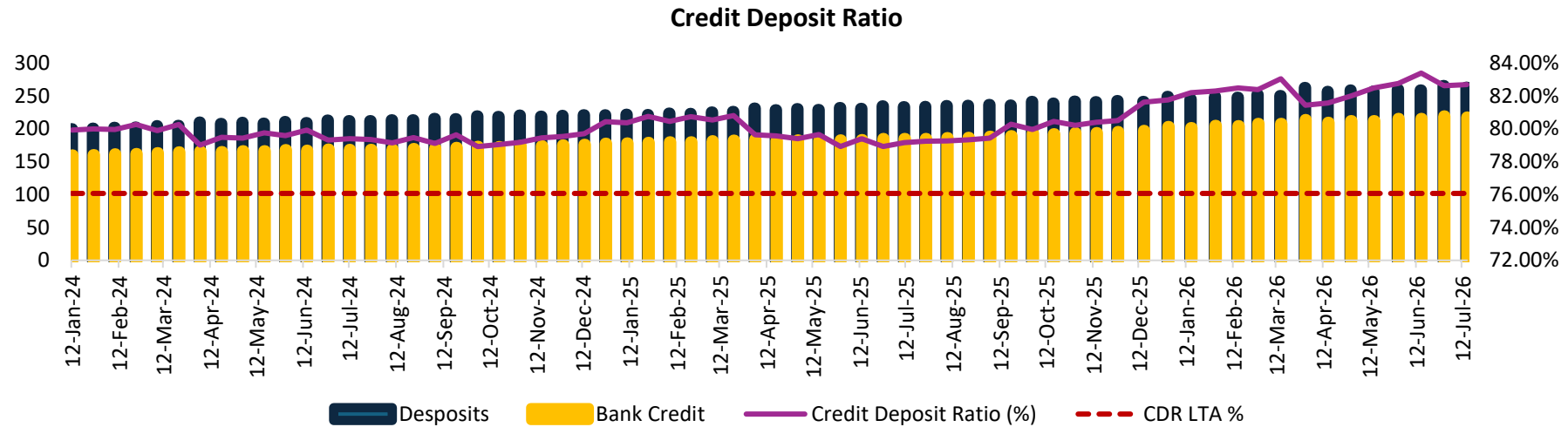
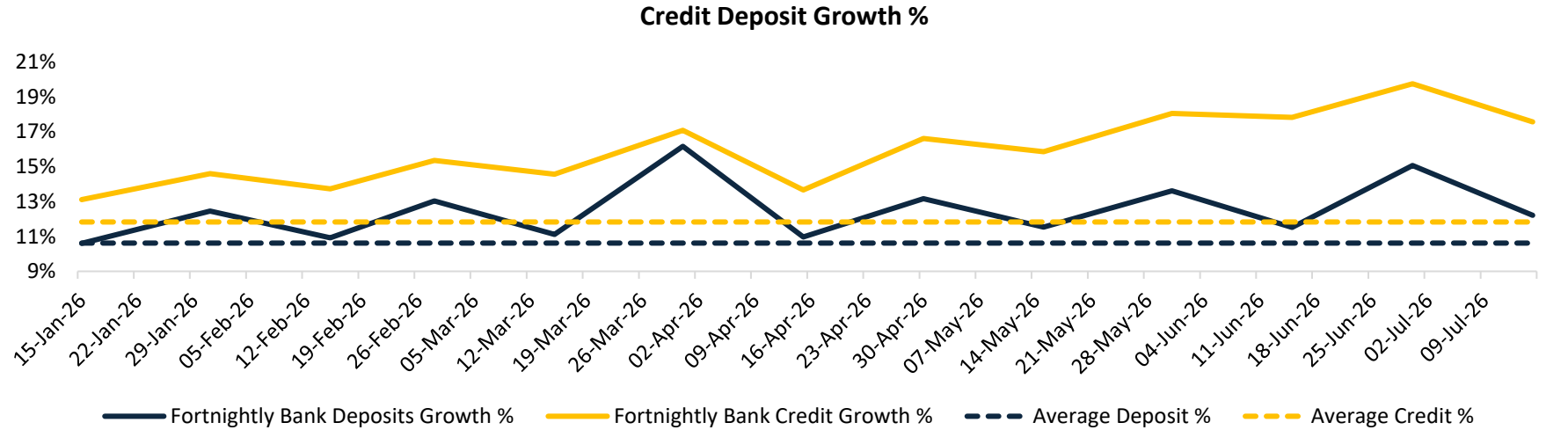
- The ISP lets us read hard and soft services together for the first time — and they agree. **Within the ISP, momentum is already fading: double-digit sub-sectors fell from 14 in April to 8 in May, with accommodation & food (37.2→27.4), retail (30.8→13.3) and admin support (28.7→5.0) decelerating hard.**
- The **July flash PMI says the cooling deepened: services sank to 53.1 from 57.4 (a 53-month low), dragging the composite to a four-year low of 54.3, while manufacturing held at 53.9. The two are complementary, not contradictory — ISP is hard but lags ~60 days (latest May); PMI is timely but soft (latest July).** In sequence: **services were strong-but-moderating through May, and July suggests the deceleration accelerated. Even the manufacturing steadiness is partly precautionary inventory-building on West Asia risk — lower-quality growth.**

Where We Go From Here

- **We expect FY27 IIP growth to settle in the 5.0–6.0% range — Q1 has run a cumulative ~5.7% (4.9%/5.0%/7.3%) — with the July print (28 Aug) moderating from June's 7.3% as the base fades, a Q2 dip on the West Asia overhang, and a Q3 recovery on the festive build-up and easier base; services should soften before stabilising, with the July PMI (a 53-month low) and the ISP's April-to-May fade pointing to a Q2 cooling rather than a contraction. The three swing variables are crude — Brent already around \$90 and up roughly 26% on the month — a below-normal, El Niño-tinged monsoon that threatens the fragile rural recovery, and mass consumption, where we want one more firm non-durables print before calling the turn. We expect the RBI to stay neutral and data-dependent at 5.25% with crude-driven inflation the binding constraint, leaving the FY27 capex push (Rs 12.2 lakh crore, +9%) as the cycle's most durable support.**

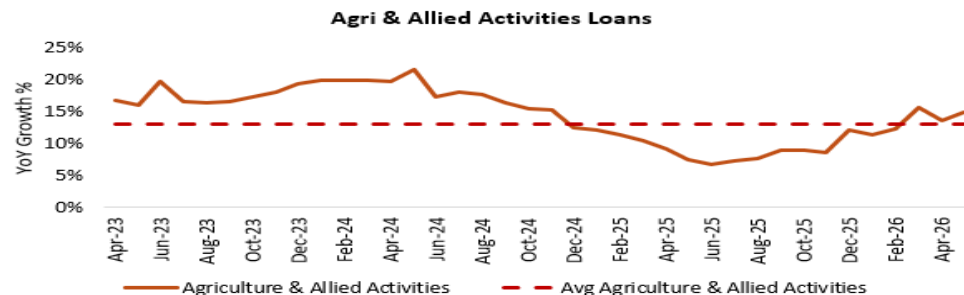


4. Capex

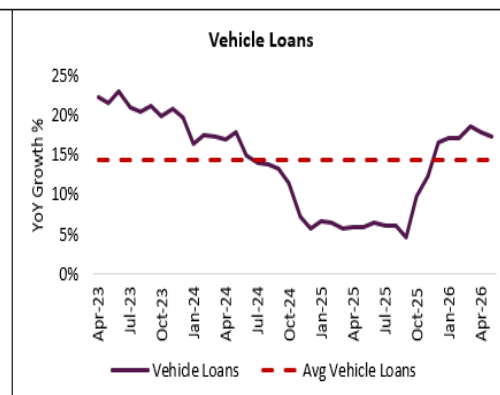
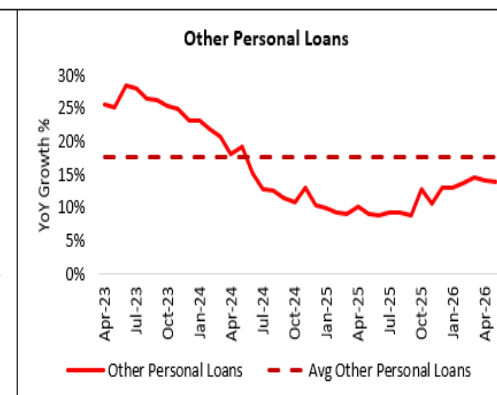
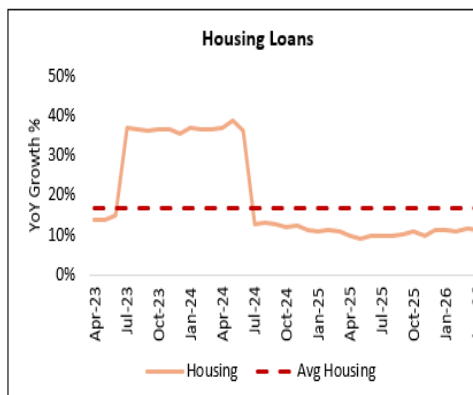
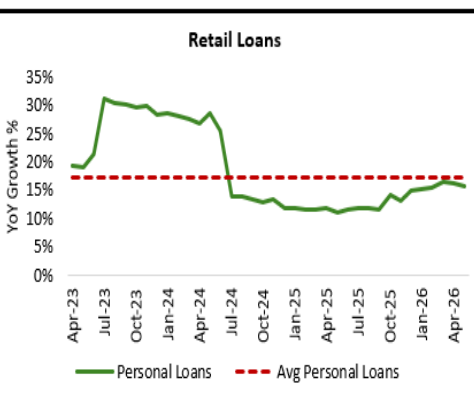




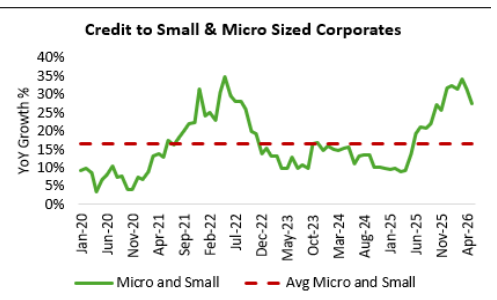
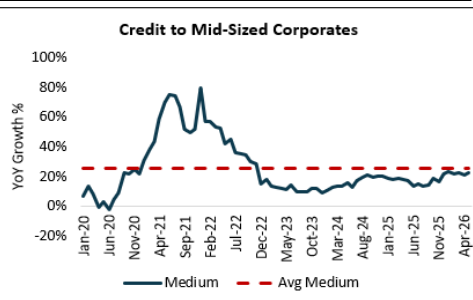
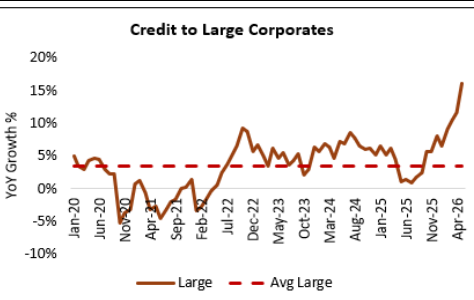
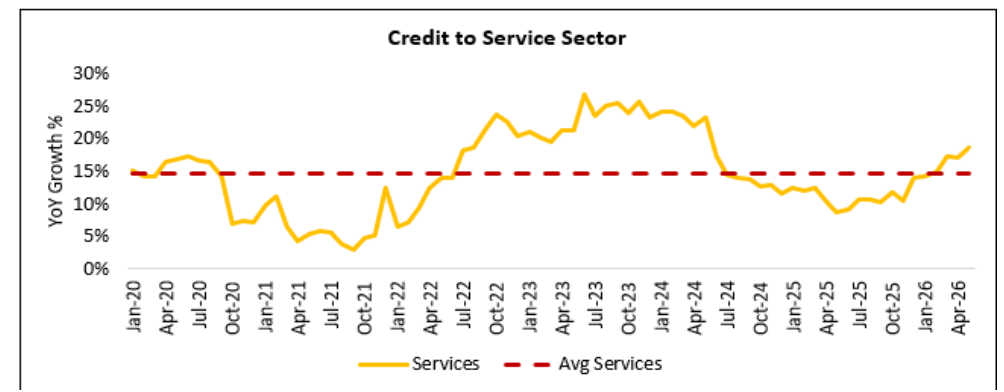
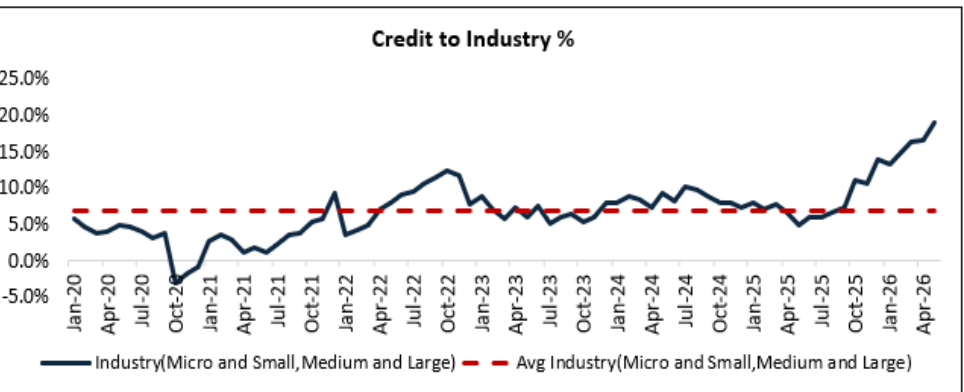
Credit to Agri



Credit to Consumer



Credit to Industry



Credit Runs Hot, Deposits Cannot Keep Up



The funding squeeze has not broken, it has changed shape. The system is lending against gold and to non-banks, not to households buying homes.

Summary

- **Credit grew 17.7% YoY in the fortnight to 15 July 2026**, off the two-year high of 18.6% a fortnight earlier. **Deposits grew 12.7%. The 500 basis point gap has now held for five quarters.** Outstanding credit is Rs 217.3 lakh crore against deposits of Rs 262.9 lakh crore, a credit-deposit ratio of **82.68%**.
- The mix matters more than the level. **Services credit grew 20.4%, led by 33.7% growth in lending to non-bank finance companies, and has displaced retail as the growth engine.** Inside retail, **gold loans grew 105.5% while housing, roughly 16% of all bank credit, grew 10.9%** and credit cards were flat. **That dispersion follows risk weights, not household preference. Meanwhile capacity utilisation crossed 75% but listed gross fixed assets grew only 5.8% in FY26. We read the credit as financing consumption and intermediation, not fixed investment.**

The Headline Numbers

- Deposit growth is volatile, credit growth is not. **FY26 closed with credit at 16.08% and deposits at 13.47%**, and the gap has widened every fortnight since. The end-June deposit spike to 13.3% came from roughly **Rs 6.97 lakh crore** mobilised in one fortnight, the third largest in 29 years, on capital inflows and quarter-end balance building. A year ago credit grew 9.6% and deposits 10.4%. The **entire gap has opened in twelve months**, and it opened because credit accelerated by eight points while deposits added two.

Deposits, The Binding Constraint

- **The shortfall is structural. Savings deposits fell from 34.6% of total deposits in March 2022 to 28.7% in March 2026, while term deposits rose from 55.2% to 61.6%. Households have not stopped saving, they have stopped saving in low-cost accounts. The consequence is a rising marginal cost of funds** even with the policy rate unchanged, and some banks are leaning into higher-yield lending to defend margins.
- The policy response ran offshore, not onshore. On **5 June 2026 the central bank announced a concessional swap facility and removed the ceiling on FCNR-B and NRE deposit rates, and banks have raised FCNR-B rates by up to 450 basis points. That is a deliberate attempt to import deposits rather than compete harder domestically, which tells us the authorities treat the gap as a real constraint.**

The Credit-Deposit Ratio

- The **CDR eased to 82.68% from the record 83.04% in mid-March, but the retreat reflects the end-June deposit surge rather than any genuine loosening.**
- **A ratio in the low eighties leaves very little incremental lending headroom. The marginal rupee of credit is funded at close to the marginal rupee of deposit cost, compressing spreads on every new loan.** Capital adequacy and funding adequacy are different constraints, and this one binds through the liability side regardless of CET1.

Where The Credit Is Actually Going

- **The services number is not a services story, it is an intermediation story. Bank lending to NBFCs grew 33.7% and its share of total credit rose from 8.5% to 9.7%. Banks are funding the non-banks that originate the retail loans banks no longer write directly. Industry at 17.5% was led by micro, small and medium enterprises rather than large corporates.**

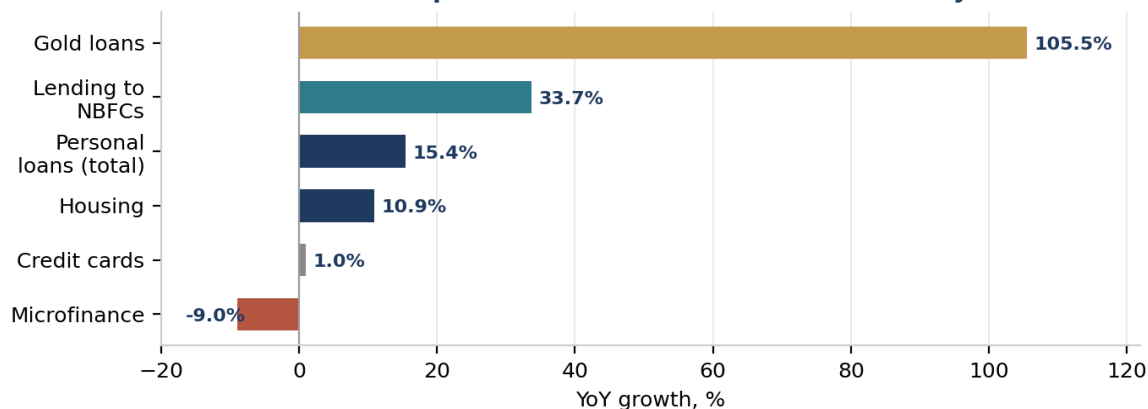


Sector	YoY	Share	Read
Services	20.4%	28.1%	NBFC-led, up from 27.5%
of which NBFCs	33.7%	9.7%	Up from 8.5%
Industry	17.5%	n.a.	MSME-led
Personal loans	15.4%	n.a.	Rs 70.2 lakh cr
Agriculture	14.9%	n.a.	Steady
Total credit	18.0%	100%	Rs 32 lakh cr added in 12M

Inside Retail, Gold Versus Everything Else

- Gold loans more than doubled to about Rs 5.1 lakh crore, share up from 1.4% to 2.4%. Housing, the largest consumer segment at Rs 33.7 lakh crore, added just 0.5% in the latest month against 1.4% for total credit. A segment that large decelerating that sharply is a real drag on the aggregate.
- Gold was up 39% YoY in dollar terms by end-May, which mechanically raises the loan available against the same ornaments. That tailwind has reversed. **Gold peaked near USD 5,370 in early March and fell to around USD 4,130 by early July, down 23% from the top. These are loan-to-value products, so the cohort originated near the peak is now on collateral worth less than at pledge. Most of the book is still covered, but if the price keeps falling that cohort widens.**

The dispersion inside retail is the whole story



Source: RBI, Sectoral Deployment of Bank Credit, end-May 2026; microfinance from credit bureau data

The Capital Rules Explain The Mix

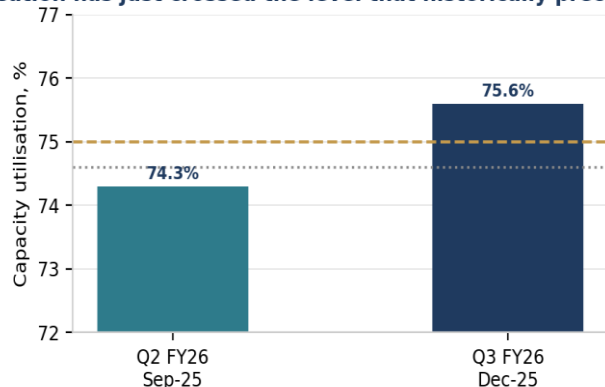
- No behavioural explanation is required. **Consumer credit and personal loans carry a 125% risk weight, explicitly excluding housing, education, vehicle and gold-secured lending. Credit cards carry 150% for banks. Weights were raised on unsecured lending and NBFC exposure in November 2023, then partly rolled back for NBFCs and microfinance in February 2025. Gold is cheap on capital, cards are expensive, and the NBFC channel is open again.**
- A revised framework, the **Standardised Approach Directions, 2026, resets these weights from 1 April 2027**. Any model extrapolating the current gold and NBFC trajectories past FY27 is extrapolating a policy artefact.



Capacity Utilisation And The Investment Cycle

- **Public capex remains the dominant leg, rising from Rs 1.9 lakh crore in FY14, 1.7% of GDP, to Rs 11.2 lakh crore, 3.2% of GDP, and close to Rs 19.8 lakh crore including grants to states and CPSE spending. The private leg disappoints. Gross fixed assets across 2,383 listed companies grew 5.8% in FY26 against 7.4% in FY25.**
- **Utilisation says capacity is tight and credit says money is flowing, but fixed asset formation says corporates are not building. The credit is going into gold-backed consumption and non-bank intermediation, not into plant.** The Q4 FY26 survey round is not yet published, so we would not treat one print above the long-run average as confirmation of a cycle.

Utilisation has just crossed the level that historically precedes capex



Source: RBI, OBICUS survey. Q4 FY26 round not yet published

Asset Quality And Policy

- **The system enters this phase strong. GNPA fell to 1.8% at March 2026, a multi-decadal low, with net NPA at 0.5%, capital adequacy at 17.7% and CET1 at 15.3%. Sector profit crossed Rs 4 lakh crore in FY26. Under the most severe stress scenario aggregate capital falls to 13.0%, still well above the 9% minimum. Agriculture is the weak spot at a 5.1% GNPA ratio and 37.2% of gross NPAs.**
- Three flagged risks bear on this note. **Household debt is 45.5% of GDP** with non-housing retail now 58.4% of household borrowing, gold loan growth is named explicitly, and the funding shift toward term deposits is treated as structural. **The expected credit loss framework starts 1 April 2027.**
- The Monetary Policy Committee held the **repo rate at 5.25% on 5 June, unanimously and with a neutral stance, raising the FY27 inflation forecast to 5.1% and cutting growth to 6.6%. June CPI printed 4.38%**, an eighteen-month high, with **inflation projected at 5.9% in Q3 FY27.**
- **The rate path and the credit path now point in opposite directions. Inflation above the 4% target removes the option of cutting to relieve funding pressure, so the deposit constraint has to resolve through pricing and external inflows.**



Key Ratios At A Glance

Indicator	Latest	Period	Prior
Credit growth	17.7%	15 Jul 26	18.6% (30 Jun 26)
Deposit growth	12.7%	15 Jul 26	13.3% (30 Jun 26)
Credit-deposit gap	500 bps	15 Jul 26	530 bps
Credit-deposit ratio	82.68%	15 Jul 26	83.04% (15 Mar 26)
Outstanding credit	Rs 217.3 lakh cr	15 Jul 26	Rs 215.15 lakh cr
Outstanding deposits	Rs 262.9 lakh cr	15 Jul 26	Rs 260.02 lakh cr
Savings share of deposits	28.7%	Mar 26	34.6% (Mar 22)
Services credit	20.4%	End-May 26	Share 28.1%
NBFC credit	33.7%	End-May 26	Share 9.7%
Industry credit	17.5%	End-May 26	MSME-led
Personal loans	15.4%	End-May 26	Rs 70.2 lakh cr
Housing	10.9%	End-May 26	Rs 33.7 lakh cr
Gold loans	105.5%	End-May 26	Rs 5.1 lakh cr
Credit cards	0.1%	End-May 26	Flat
Microfinance	-9.0%	May 26	Rs 3.33 lakh cr
Capacity utilisation	75.6%	Q3 FY26	74.3% (Q2 FY26)
Listed gross fixed assets growth	5.8%	FY26	7.4% (FY25)
GNPA / CRAR	1.8% / 17.7%	Mar 26	CET1 15.3%
Household debt to GDP	45.5%	Jun 26	Non-housing 58.4%
Repo rate / CPI	5.25% / 4.38%	Jun 26	CPI 3.93% (May 26)

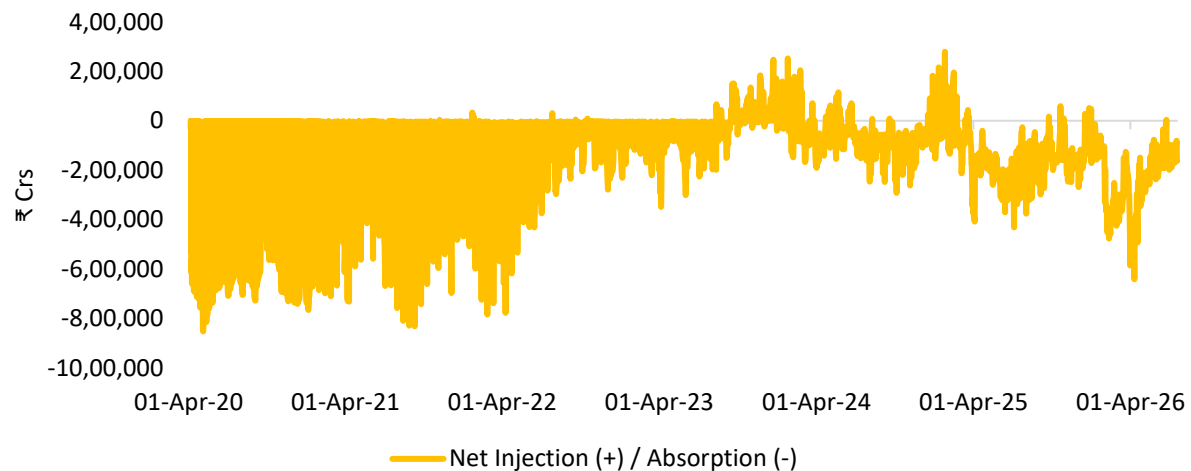
Outlook, Where We Go From Here

- We expect the gap to narrow over the next two quarters, but for the wrong reason. Convergence comes from **credit decelerating, not deposits accelerating**, and the mid-July print is the first evidence. The shift out of low-cost savings will not reverse inside a year.
- On funding, the offshore route does more work than the market credits. If it lands, banks avoid a domestic deposit rate war and margins hold. If it does not, the adjustment falls back on domestic term deposit pricing and margins compress across the sector through FY27.** On the mix, **we are cautious on gold: a segment growing 105% into collateral down 23% from its peak carries an obvious embedded risk concentrated in one origination cohort**, and the **April 2027 risk weight reset makes the current growth rate unrepeatable**.
- On capex, the trigger conditions are met on demand and unmet on corporate conviction.** With FY27 inflation raised to 5.1% and growth cut to 6.6%, we do not expect visibility before H2 FY27. **Our positioning reflects a private capex cycle that we believe will be delayed in onset but extended in duration relative to consensus, as corporates remain justifiably cautious on large greenfield commitments given elevated geopolitical risk, the Middle East conflict and US tariff policy chief among them.** The number we would put in front of an investment committee is not the credit growth rate. It is the **500 basis point gap**, and the fact that it is closing by lending less rather than funding more.

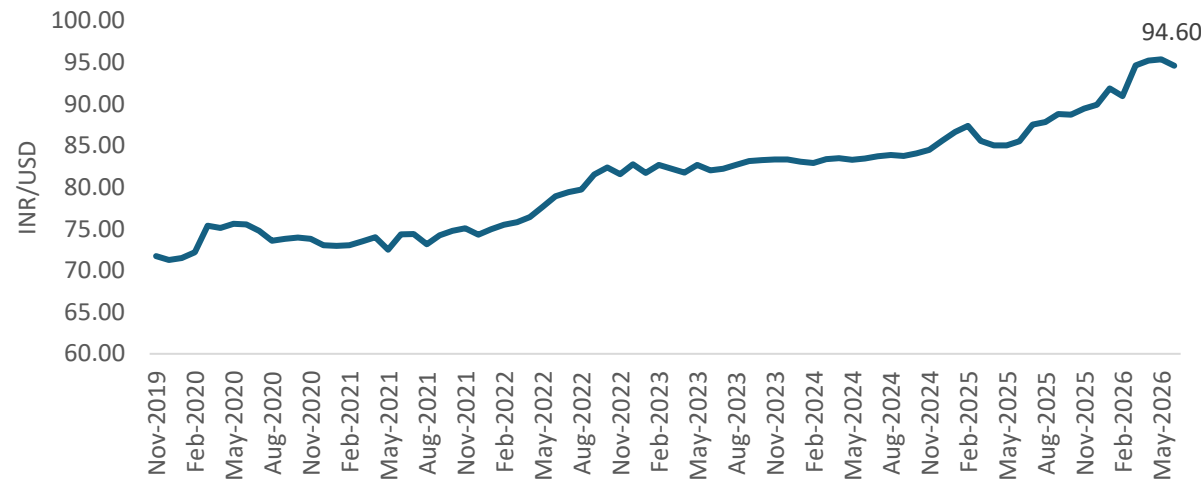
5. Liquidity



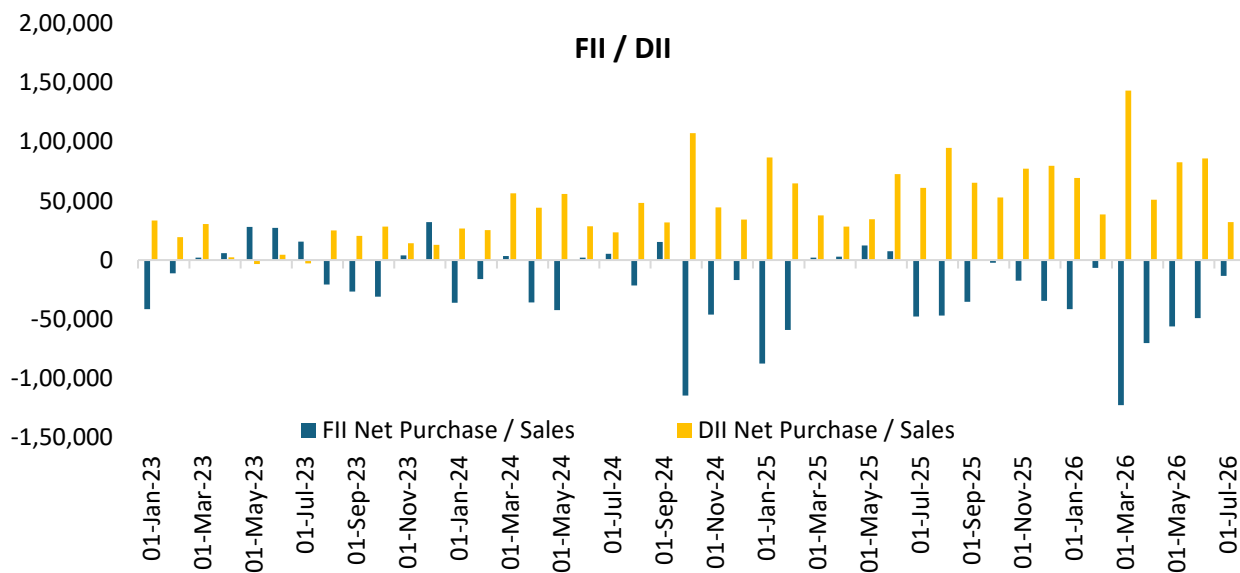
Net Injection(+)/Absorption(-) of Excess Liquidity



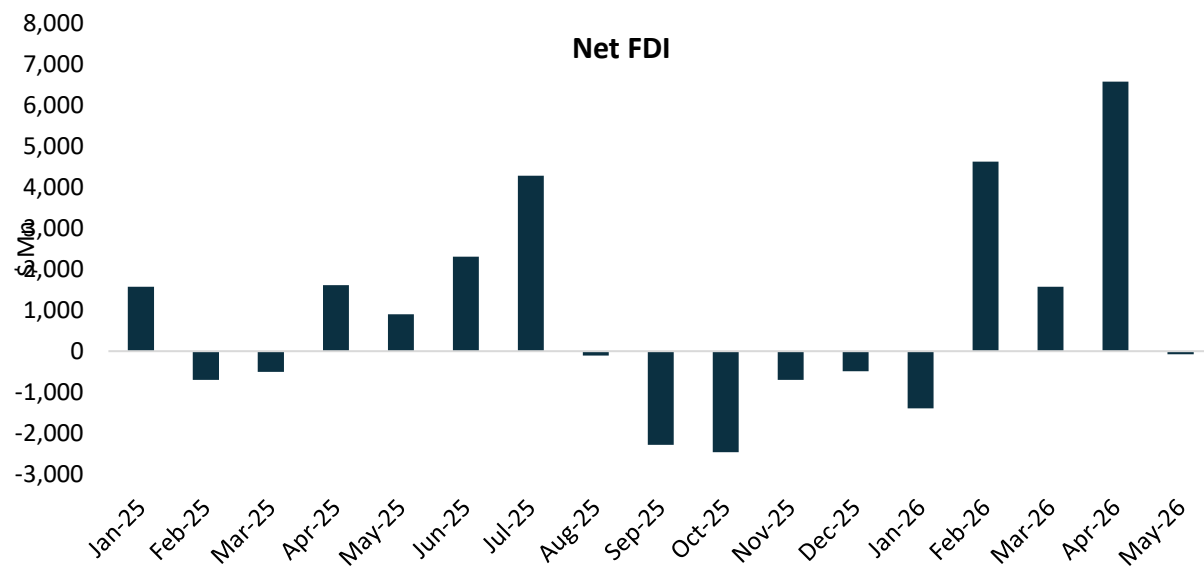
INR/USD



FII / DII

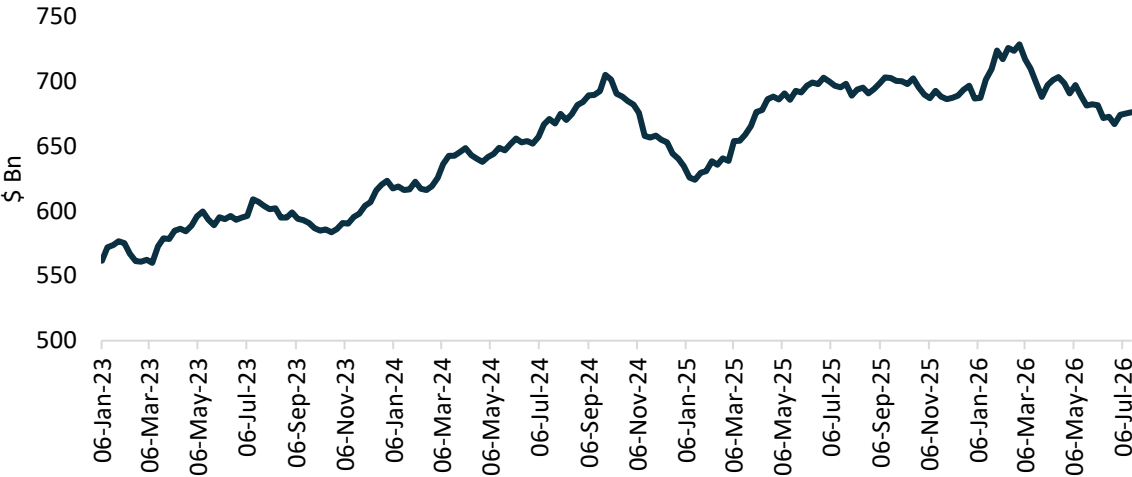


Net FDI

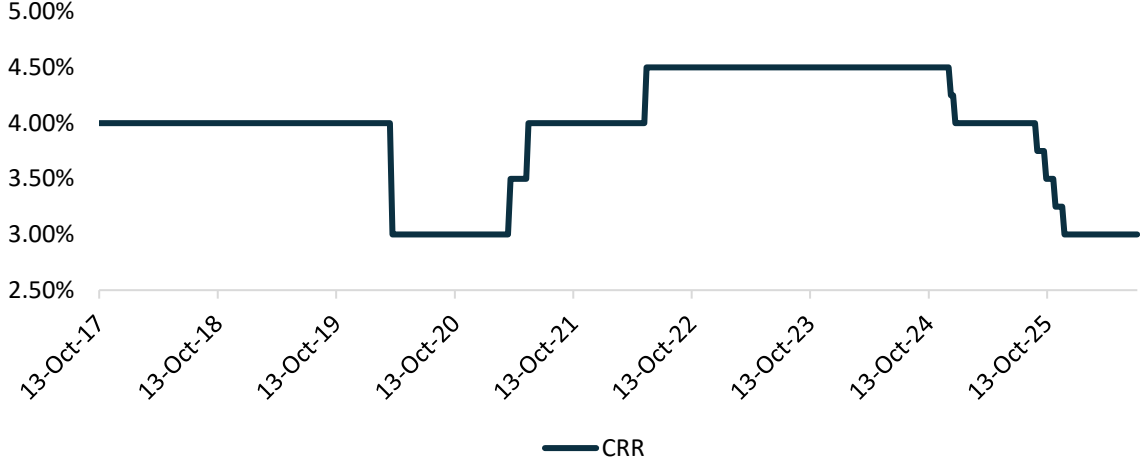




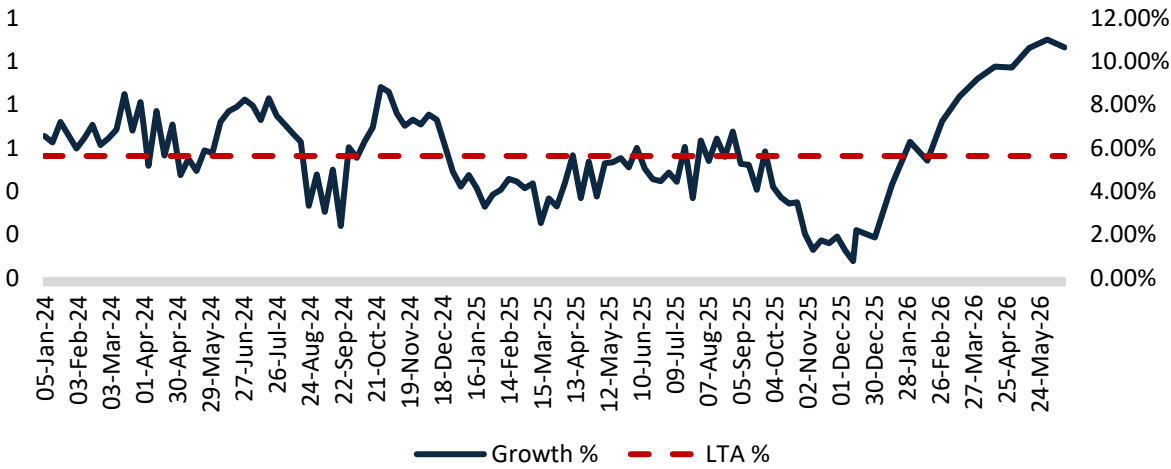
Foreign Exchange Reserves (USD Bn)



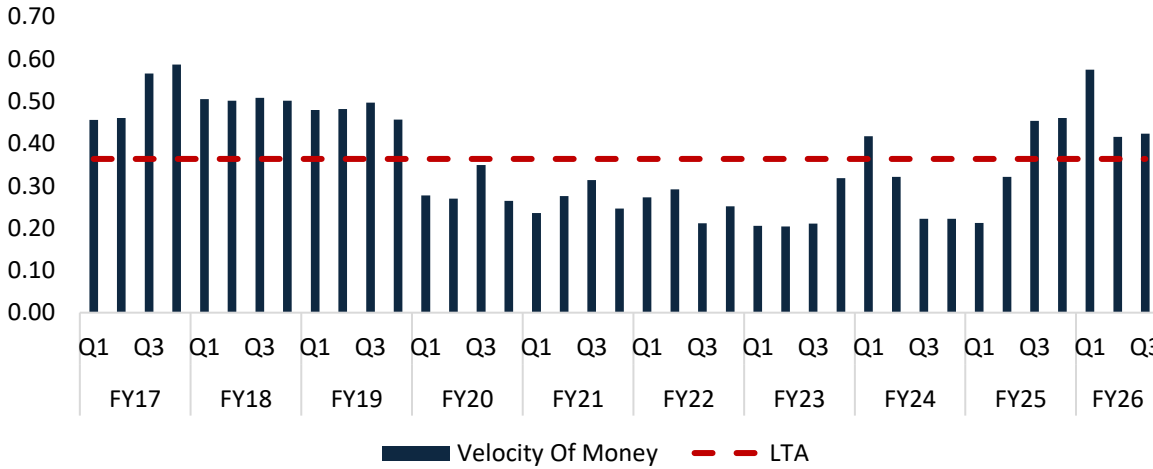
CRR



Reserve Money (M0)



Velocity of Money





The Surplus Thins, The Corridor Tightens

In one line: India's banks still have spare cash, but less than before. **Market interest rates dipped and then bounced back when the West Asia ceasefire collapsed, and a large but temporary wave of foreign deposits is propping up the rupee.**

- **The spare cash in the banking system is thinning out** – Banks park their spare cash with the RBI each day. **On average, that daily spare cash was actually a bit higher in July than June, at about ₹1.25 lakh crore versus ₹0.89 lakh crore, but the trend underneath is tightening.** For the first time since spring, on some days the RBI had to lend cash back to banks to cover short gaps, instead of soaking up extra cash. Two things are quietly draining the pool: people are holding more physical currency, and, more importantly, banks are lending much faster (up 18.6% over the year) than they are gathering deposits (up 13.3%), so money leaves faster than it comes in.
- **Market interest rates did a round-trip** – As spare cash eased in early July, the rate banks charge each other overnight drifted back down close to the RBI's benchmark, to about 5.29%. Then the West Asia ceasefire broke on 8 July, oil prices jumped, and rates snapped back up. The 10-year government bond yield ended almost exactly where it started, at 6.78% (it had been 7.00% in late May). Short-term bank deposit rates rose the most, because banks are scrambling for funds. Company bond yields eased slightly, following government bonds down.
- **Foreign money, a small and fragile improvement** – Foreign companies investing directly in India put in \$6.5 billion in April-May, more than double a year earlier. Foreign investors in shares and bonds turned net buyers in June and July, but for the year so far they are still net sellers of \$5.5 billion, and the **recent buying is mostly bonds, not shares.** The **standout is a special deposit scheme the RBI opened on 5 June, which pulled in \$17.4 billion of foreign-currency deposits in about six weeks, a big support for the rupee, but temporary money that flows out again when the deposits mature.**
- **The RBI's rate cuts have mostly reached borrowers** – The RBI has cut its main rate by 1.25% since early 2025. About three-quarters of that cut has actually passed through to lending rates, fastest on home, vehicle, education and small-business loans. The catch: banks are cutting loan rates faster than deposit rates, which squeezes their profit margins and keeps them hungry for funds, which feeds straight back into the cash tightness above.
- **The rupee dipped, but the safety buffer is strong** – The rupee gave back its June gains in July as the US dollar strengthened, trading roughly 93 to 98 per dollar. India's foreign-exchange reserves remain comfortable, enough to cover more than ten months of imports, and the country's external debt levels are **well within safe limits. The buffer is solid.** The open question is how long these temporary foreign inflows keep leaning on it. **On the payments side, digital transactions grew over 20% for the first time in 19 months, so the system's plumbing is fine; the constraint is spare cash, not payments.**

Where we land, our view

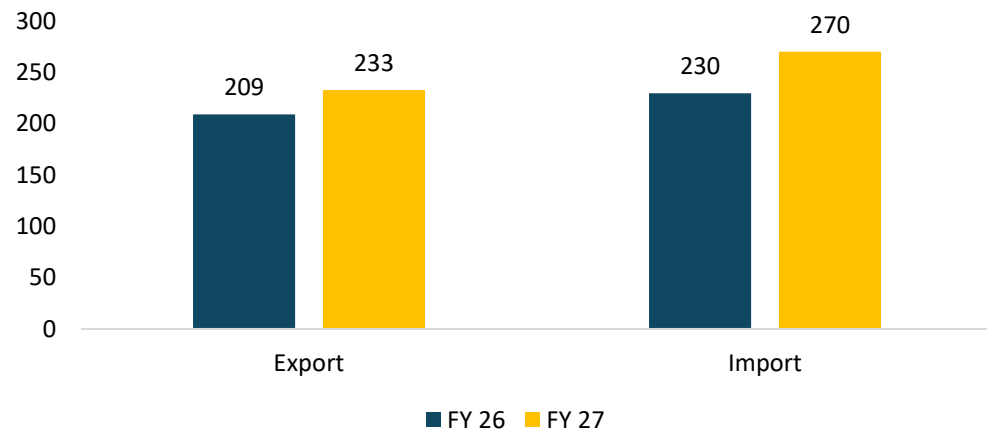
Because almost nothing except the very shortest-term rates now moves with the RBI's benchmark, we can stay constructive without waiting on the next rate decision. We stay positioned for lower rates over time: we prefer short company bonds (up to 3 years, including bank deposit certificates where funding stress has pushed yields up) and long government bonds (14 years and beyond). We expect at most 0.5% of rate hikes this cycle, not before October, and possibly none. The biggest swing factor is the West Asia war. More conflict means higher oil, tighter cash and a weaker rupee; a lasting peace means the opposite. We would not trade around it, and prefer to keep the long view.



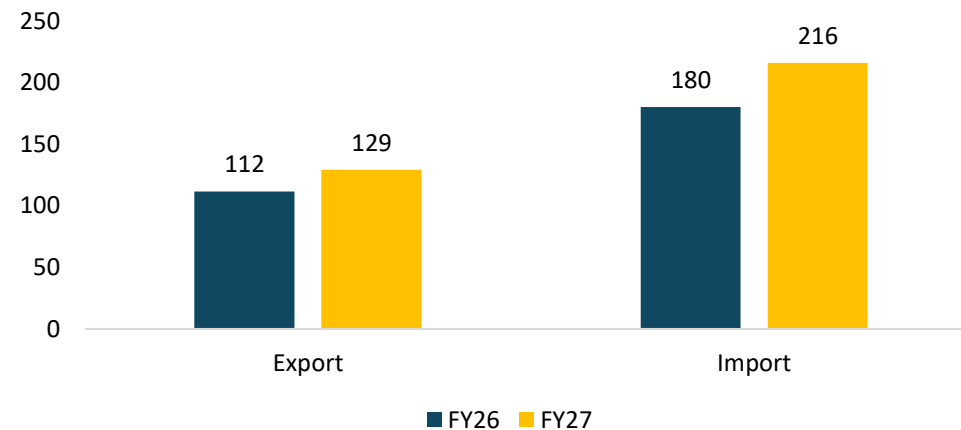
6. Trade



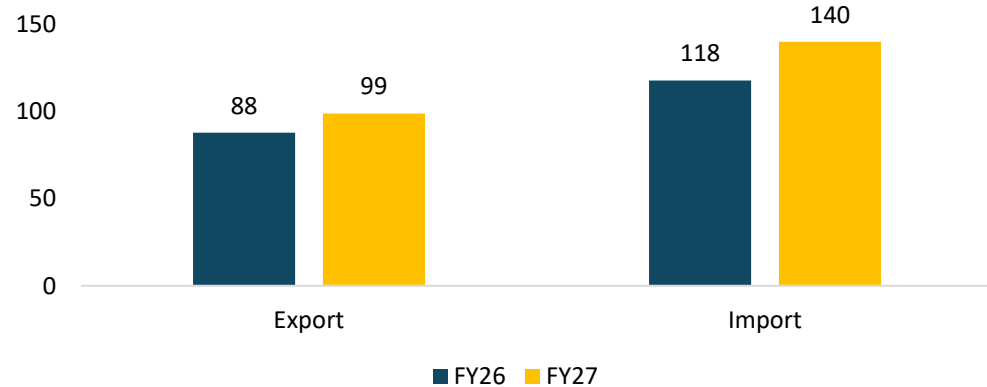
Total Trade During April-June 2027



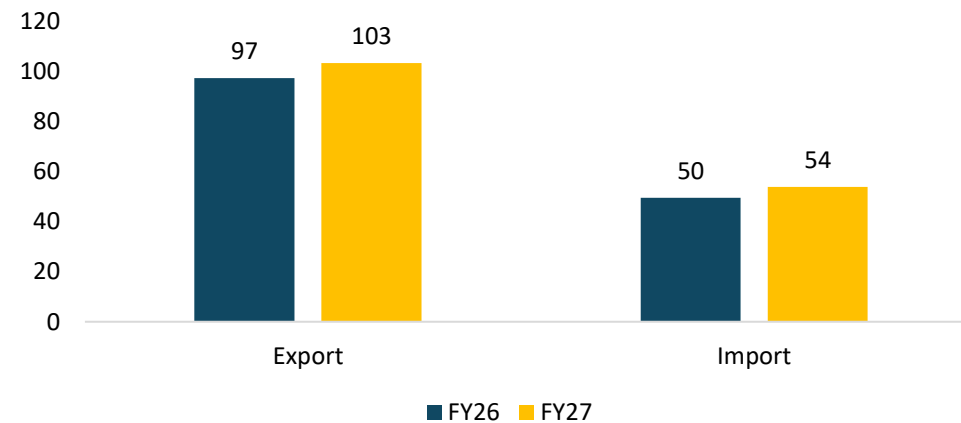
Merchandise Trade during April-June 2027



Trade excluding Petroleum and Gems & Jewellery during April-June 2027



Services Trade during April-June 2027





The Import Surge Overwhelms a Solid Export Print

- **India's merchandise exports rose 15.5% YoY to USD 40.41 billion in June 2026 against USD 34.98 billion in June 2025, a broad-based and healthy print.** But the relief is once again short-lived. **Merchandise imports surged 31.0% YoY to USD 70.84 billion, blowing the monthly goods trade deficit out to USD 30.43 billion against USD 19.10 billion in June 2025.** The export engine is running well, yet the import pull is now decisively outrunning it, and June's goods gap is one of the widest monthly divergences we have tracked this cycle.
- **The combined goods-and-services deficit widened to USD 15.32 billion in June 2026 from just USD 2.89 billion in June 2025.** On a cumulative first-quarter basis, total exports for April-June FY27 reached USD 232.73 billion (+11.37% YoY) and total imports USD 270.15 billion (+17.55% YoY), leaving a Q1 FY27 overall deficit of USD 37.42 billion against USD 20.85 billion a year earlier. **The merchandise gap for the quarter is now USD 86.86 billion against USD 68.75 billion in Q1 FY26, a 26.3% widening. We read June as an intensification of the structural pattern we have flagged since April: strong, diversified gross flows on both sides, with the net deteriorating because import-intensity is rising faster than export-intensity.**

Export Drivers – Jewellery and Engineering Replace the Petroleum Carry

- **The standout feature of June is the rotation in export leadership. Gems and jewellery exports jumped 34.64% YoY to USD 2.41 billion, and engineering goods, our preferred read on the manufacturing cycle, rose 20.74% YoY to USD 11.48 billion, the single largest category by absolute size.** Organic and inorganic chemicals rose 19.42% YoY to USD 2.77 billion, electronic goods 18.93% YoY to USD 4.93 billion, and rice 16.48% YoY to USD 1.00 billion. **Petroleum products, which carried the May print at +54.9% YoY, decelerated sharply to just +9.19% YoY in June.** This is precisely the glide-path normalisation we anticipated once the West Asia spot shock faded from the refining book, and it makes June's beat a far healthier, more diversified print than May's petroleum-led surge.
- **Non-petroleum exports rose 16.5% YoY to USD 35.54 billion and non-petroleum, non-gems-and-jewellery exports 15.3% YoY to USD 33.13 billion, confirming the non-commodity core is doing the work.** The second tier is unusually broad, with Other Cereals (+244.29% YoY), Handicrafts excl. handmade carpets (+59.69% YoY), Meat, Dairy & Poultry (+54.63% YoY), Iron Ore (+49.97% YoY) and Marine Products (+14.48% YoY) all posting strong prints. **The composition matters ahead of 15 July: gems and jewellery, engineering goods, textiles and marine products, four of June's leaders, are exactly the labour-intensive lines that gain immediate duty-free access under the India-UK CETA.**

Imports Composition – Crude, Electronics and the Gold Base Effect

- **The import overshoot is the real story of June. Non-petroleum imports rose 27.9% YoY to USD 51.52 billion and non-petroleum, non-gems-and-jewellery imports 31.4% YoY to USD 48.25 billion.** The bulk of this widening reflects a broad revival in capital goods, intermediates and electronics imports tracking the domestic manufacturing and export cycle, layered on an oil bill being pulled higher again by the renewed West Asia risk premium rather than by volume. **This is the mechanical import-intensity problem at the heart of the deficit: every incremental unit of engineering and electronics export drags in a larger unit of imported input.**
- **On the downside, the precious-metals compression continued. Silver imports fell 73.62% YoY, Pearls, Precious & Semi-Precious Stones 16.83% YoY, and Project Goods collapsed 85.44% YoY.** The silver and pearls prints are the fuller-month fingerprint of the May customs duty reset on gold and silver, broadly the effect we told you to expect once a clean month of data arrived. Chemical Material & Products (-12.13% YoY) and Vegetable Oil (-2.58% YoY) also declined. **We read the Project Goods collapse as an ordering pause, not a demand signal.**



Trading Partner Geography – The Energy Pivot Deepens

- **The export-destination data confirms the external re-routing is now structural. In June 2026, exports to South Africa rose 114.04% YoY, Oman 189.6% YoY, Malaysia 99.18% YoY, Singapore 48.91% YoY and China 31.49% YoY by change in value.** The cumulative Q1 FY27 picture is even cleaner, led by Tanzania (+146.89% YoY), Sri Lanka (+124.63% YoY), Singapore (+101.16% YoY), South Africa (+76.49% YoY) and China (+27.54% YoY). **The Singapore and China prints are large enough in absolute terms to move the national exports line, and they confirm the re-routing of finished electronics and engineering output through Southeast Asian hubs.**
- **On the import side, the energy-diversification trade is unambiguous. In June 2026, imports from Russia rose 85.02% YoY, Taiwan 135.03% YoY, China 40.26% YoY, the United States 33.86% YoY and the UAE 24.62% YoY.** The cumulative Q1 FY27 import-source picture is more telling still, with Oman up 221.81% YoY, Brazil up 174.69% YoY, Russia up 52.68% YoY, China up 27.94% YoY and the United States up 23.82% YoY. **The Oman, Brazil and Russia prints together are the clearest evidence yet that Indian refiners have built a third and fourth alternate barrel, and, as the West Asia ceasefire breaks again, that hedge is now doing exactly the job it was built for.**

Services – The Cushion Thins as the Surplus Stalls

- **The services cushion showed its first sign of strain in June. Services exports grew just 2.9% YoY to USD 33.03 billion, a sharp deceleration, while services imports rose 12.7% YoY to USD 17.92 billion. The net services surplus for June 2026 actually narrowed to USD 15.11 billion from USD 16.21 billion in June 2025, the first YoY contraction in the monthly cushion we have flagged as a risk. With the merchandise deficit at USD 30.43 billion in June, the services surplus now offsets only about half of the goods gap, against roughly 85% a year earlier.**
- **The cumulative quarter still looks healthy: the Q1 FY27 services surplus is USD 49.44 billion against USD 47.90 billion in Q1 FY26, with services exports up 6.16% YoY.** But the June deceleration is a genuine flag. If softer software and consultancy export growth persists into the second quarter, the current-account arithmetic will deteriorate faster than the merchandise data alone implies, because the structural offset is thinning just as the goods deficit widens. **We will be watching the RBI's July and August services prints closely for whether June was a one-month wobble or the start of a trend.**

Gold and Silver Duty – The Full-Month Bite Arrives

- **June is the first clean month to capture the May customs duty reset on gold and silver, and the data delivers. The 73.62% YoY collapse in silver imports and the 16.83% YoY fall in pearls and precious stones are far sharper than May's partial-month prints.** This is the pass-through we told you to expect: the duty is compressing official precious-metals inflows exactly as designed, and it is a genuine, if narrow, relief valve on the import bill.
- **Our critique on design stands.** The duty reliably compresses official inflows but has a poor historical record on revenue and a reliable one on driving unofficial channels. With the largest single duty-arbitrage window still structurally open, we continue to expect official monthly gold and silver imports to stay compressed through the first half of FY27 before partially mean-reverting as bullion demand finds alternate routes. **The precious-metals compression is flattering June's import optics, but it is not the structural fix the deficit needs.**



West Asia – The Ceasefire Breaks and the Hedge Pays Off

- **The central macro event since our May note is that the West Asia ceasefire has broken down. After the mid-June interim US-Iran peace framework briefly pulled Brent back below USD 70, a fresh cycle of tit-for-tat strikes through early July has reversed the relief entirely.** Following renewed US strikes on Iran and Iranian attacks on Gulf shipping and regional bases, Tehran has again declared the Strait of Hormuz closed, and Brent has climbed back into the upper USD 90s. **The ceasefire the May print was built around is, as of today, effectively over.**
- **This is the vindication of the hedge thesis we have run since Q4 FY26.** The June trading-partner data shows Indian refiners never unwound their diversification, with Russia, Oman and Brazil barrels all sharply higher, and that decision now looks prescient rather than expensive. We continue to assume a non-trivial probability of a sustained Hormuz disruption through FY27 and read refiner procurement as sharing that view. **The consequence for the trade account is a crude bill that runs hotter in dollar terms than volumes imply, and we hold our FY27 current-account forecast at a 10–15 basis point premium to the naive scenario.**

Trade Policy – A July Cliff on Tariffs, a July Offset on FTAs

- **US trade policy is now the dominant near-term policy risk, and July is the cliff edge.** The temporary 10% Section 122 tariff on Indian goods lapsed on 24 July, while the USTR's twin Section 301 investigations face a 20 July completion deadline, with a 12.5% duty on India and some 45 other countries on the table. The bilateral trade agreement, reported all but finalised in late June, has since stalled on domestic-policy and legal complications despite the USTR's late-June visit to Delhi. **The realistic range on India's effective US rate spans a drop toward MFN, a hold at 10%, or a jump toward 22.5% if the Section 301 layer stacks, a wide and binary outcome for thin-margin exporters in textiles, leather and gems.**
- **The offset is the FTA calendar.** The India-UK CETA enters into force on 15 July, removing UK duties on 99% of Indian tariff lines from day one, including up to 70% on processed foods, 21.5% on marine products, 18% on engineering and auto components, 16% on leather and footwear and 12% on textiles. The concluded India-EU FTA, which frees roughly 91% of Indian export value from day one, is on track for entry into force in early 2027. **Together these agreements give India a diversified, rules-based demand base precisely as the US channel turns uncertain, and they map directly onto June's export leaders.**

Outlook

- **The June print reinforces our cautiously constructive stance on exports and our caution on the external balance.** Merchandise exports of USD 40.41 billion (+15.5% YoY) and a Q1 FY27 cumulative running 11.37% ahead keep the trillion-dollar total-export ambition within reach, on a healthier composition than May's petroleum-led beat.
- **The energy risk has flipped back to the downside.** With the Hormuz ceasefire broken and Brent back in the upper USD 90s, the crude import bill, the current account and imported inflation all face renewed upward pressure; the diversified barrel cushions delivery risk, not price.
- **US trade policy is the single variable to size around through late July.** The 20 July Section 301 deadline and the 24 July Section 122 expiry together define a genuinely binary tariff outcome, and we would not chase export-cycle beta into that event.
- **The FTA calendar is the structural offset.** CETA from 15 July and the EU FTA from early 2027 re-anchor Indian export demand away from a single uncertain counterparty and favour engineering, textiles, leather, marine and gems exposure.
- **We hold our FY27 current-account deficit band and retain a marginal underweight in import-intensive consumer discretionary against an overweight in domestic engineering, electronics and CETA-advantaged export manufacturing.** The net view stays cautiously constructive: the export thesis holds and the FTA tailwind is now concrete, but the twin July tariff deadlines and a re-opened West Asia conflict are the risks to size around.



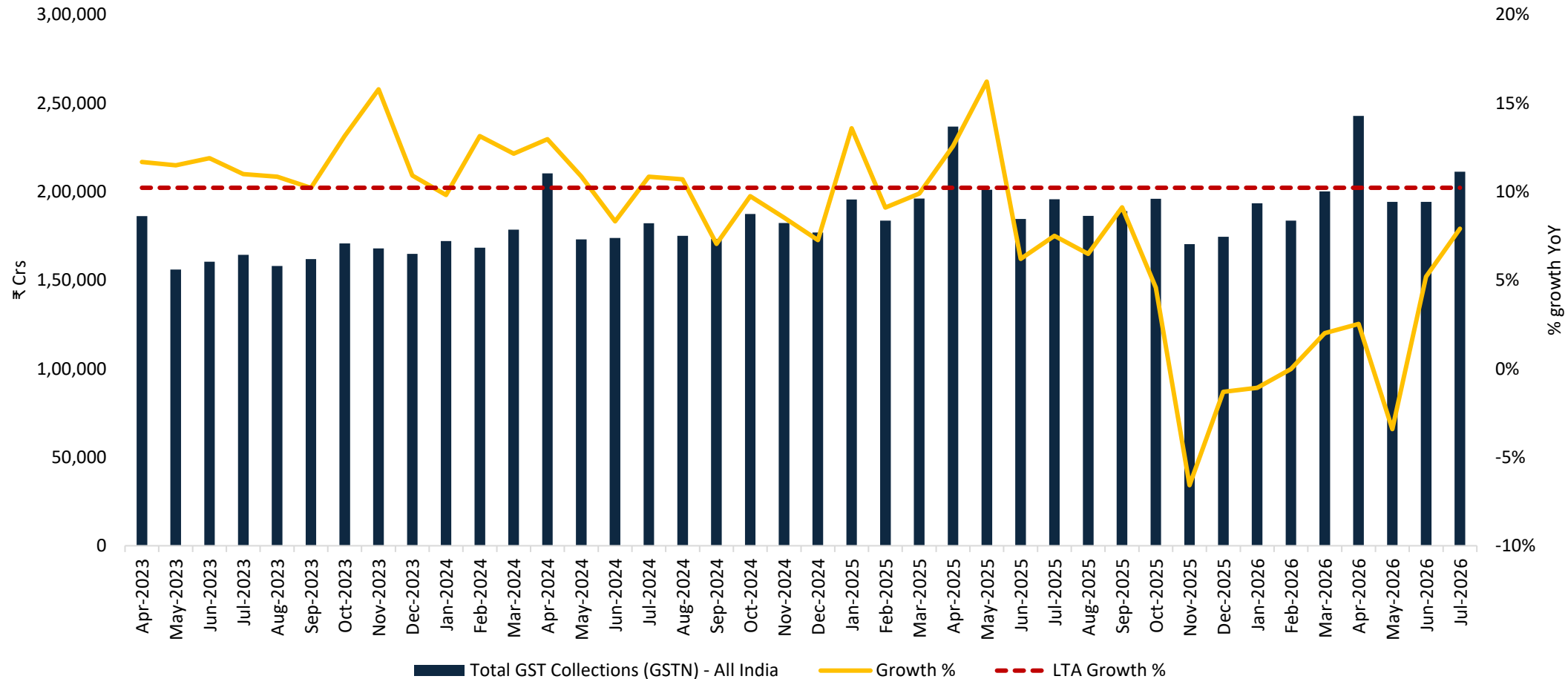
- **India's current account deficit is expected to widen moderately in FY27 to a consensus ~1.3% of GDP (range 0.9–1.5%), up from FY26's actual 0.6% of GDP (-\$25.2bn), though still well within the sub-2% zone economists consider comfortable. The improvement in FY27 estimates versus a month earlier (from ~1.5%) was driven by softer crude prices (India's oil basket fell from \$114.5/bbl in April, although the re-escalation has got crude prices to the high 90s level), alongside resilient services exports and remittances, which have consistently outperformed the merchandise trade drag. Key risks to the outlook are a re-escalation of Iran-Israel/US-Iran tensions repricing crude higher, a structurally wider merchandise trade deficit that some banks (like Bank of Baroda) don't see narrowing, and moderating services/remittance growth off FY26's high base. Besides the FTA coming into effect at different time period through FY27 and the offsetting positive is that financing risk, not the CAD itself is now the bigger swing factor, with RBI's June 2026 measures (FCNR(B) hedging support, concessional forex swaps for PSU overseas borrowing) explicitly aimed at shoring up capital inflows to keep the balance of payments in surplus even if the current account gap widens.**



7. Fiscal Situation



GST Collections





India's GST Collections. July 2026 at Rs.2.11 Lakh Crore (+15.4% YoY). Import IGST Drives Headline Again, Domestic Revenue Accelerates to 10.1% YoY

- India's GST collections in July 2026 stood at **gross revenue of Rs.2,11,205 crore (+15.4% YoY)**, a further acceleration from June's +13.9% print and the strongest non-April print on record, comfortably above the Rs.1.83 lakh crore July 2025 base. The optical strength is again flattered by the import leg, but the domestic engine has finally joined in. The component wise breakup stood at **CGST Rs.39,835 crore, SGST Rs.47,881 crore, IGST Rs.1,23,490 crore (of which imports contributed Rs.66,511 crore)**. **Import IGST surged 28.8% YoY**, the standout driver for a second consecutive month, reflecting crude repricing higher through the second half of July on renewed Strait of Hormuz and Red Sea disruption alongside sustained capital goods import momentum. Domestic gross revenue grew a **much firmer 10.1% YoY to Rs.1,44,695 crore**, the best domestic print of FY27 so far and confirmation that the consumption tax base is now running ahead of nominal GDP. **Net GST revenue after refunds stood at Rs.1,81,237 crore (+15.8% YoY)**, with gross refunds up a more measured 13.1% YoY to Rs.29,968 crore as the refund surge of recent months began to normalise. **Cumulative FY27 gross collections through July reached Rs.8,42,905 crore (+10.1% YoY)**, with year to date net at Rs.7,21,457 crore. State wise, **Haryana (+25%), Gujarat (+19%), Telangana (+19%), Punjab (+16%), Uttar Pradesh (+15%) and Maharashtra (+13%)** led the industrial cluster, while Himachal Pradesh (-22%), Uttarakhand (-18%), Madhya Pradesh (-10%) and Andhra Pradesh (-5%) contracted, pointing to uneven regional demand.
- The July print confirms our view that the structural floor for monthly GST is now starting to settle closer to Rs.2.00 lakh crore, and more importantly that domestic collections have caught up with the headline. We raise our FY27 gross collection estimate to Rs.24.5-25.0 lakh crore (+10-12% YoY)** against the FY26 base of Rs.22.27 lakh crore, with the four month run rate of Rs.2.11 lakh crore already tracking the upper end. **The key swing factor remains import IGST**, which has grown 26.9% YoY on a YTD basis to Rs.2,43,783 crore and now contributes roughly 29% of gross collections versus 25% a year ago, rising to 31% in July alone. Brent averaging in the low \$80s through July and closing the month near \$88 keeps flattering the headline, and a Hormuz resolution would compress this line sharply. **Domestic GST growth at 4.5% YTD is the number to watch**, as it captures pure consumption without the crude and capex import overlay. On a net basis domestic revenue is up only 2.5% YTD because domestic refunds have risen 21.5% to Rs.72,444 crore, and this refund drag is the quieter story in the print. The divergence between headline and domestic growth has narrowed from roughly 740 bps in June to 530 bps in July, and we expect it to close further through Q2 as import base effects normalise. Compensation cess collections continue to unwind post the January 2026 phase out and should fully wash out by September 2026.

A Primary Surplus in Q1 as Capex Stays Front-Loaded

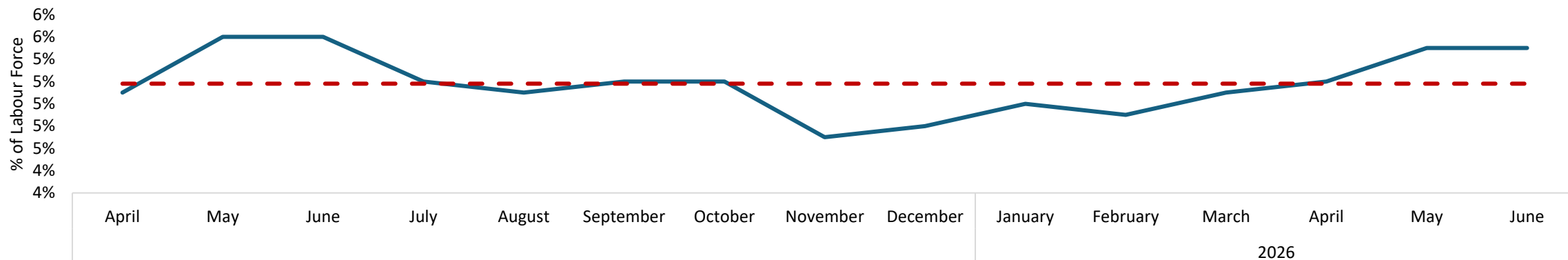
- The **April-June fiscal deficit at Rs 3.08 trillion, or 18.2% of the FY27 BE**, is barely wider than the 17.9% run rate a year ago and, at roughly **10% higher YoY**, marks a sharp deceleration from the alarming April-May optics. The quality of the print is the real story. **Revenue receipts at Rs 10.14 trillion covered 28.7% of BE against 26.7% a year ago**, with non-tax revenue at Rs 3.78 trillion or 56.7% of BE on the record RBI dividend, while **net tax revenue at Rs 6.37 trillion tracked 22.2% of BE versus 19.0% a year ago** despite the March excise cut. Total expenditure of Rs 13.57 trillion was 25.4% of BE, and the **capex flow remains the standout at Rs 3.40 trillion, 27.8% of the FY27 target of Rs 12.22 trillion already met** against 24.5% a year ago and up roughly 24% YoY, reinforcing our capital goods stance embedded in the IIP outlook above. The **revenue deficit has all but vanished at Rs 2,578 crore, 0.4% of BE against 6.4% a year ago, and the primary balance is in surplus at Rs 38,581 crore**, the cleanest quality of deficit we have seen in a first quarter. Subsidy outgo of Rs 1.15 trillion at 28% of BE versus 22% a year ago is front-loaded by urea at 45% of its allocation, a phasing issue rather than slippage. Market borrowings of Rs 2.39 trillion are a comfortable 18% of BE, but **small savings have drained Rs 67,597 crore against a Rs 3.87 trillion budgeted contribution**, which we flag as the largest H2 financing risk. With **crude closing July near \$88 per barrel**, our stated binding constraint of Brent below \$85 has been breached, and we now expect a **15-20 bps slippage versus the 4.3% of GDP target for FY27**. Net-net, the **fiscal impulse to industrial activity remains firmly positive**, and this is the single most important underpinning of our **5.0-6.0% FY27 IIP growth range**.



8. Employment



Unemployment Rate



Unemployment — Headline UR Holds Steady at 5.5% in June 2026; Rural Labour Market Stabilises as Urban Unemployment Edges Up

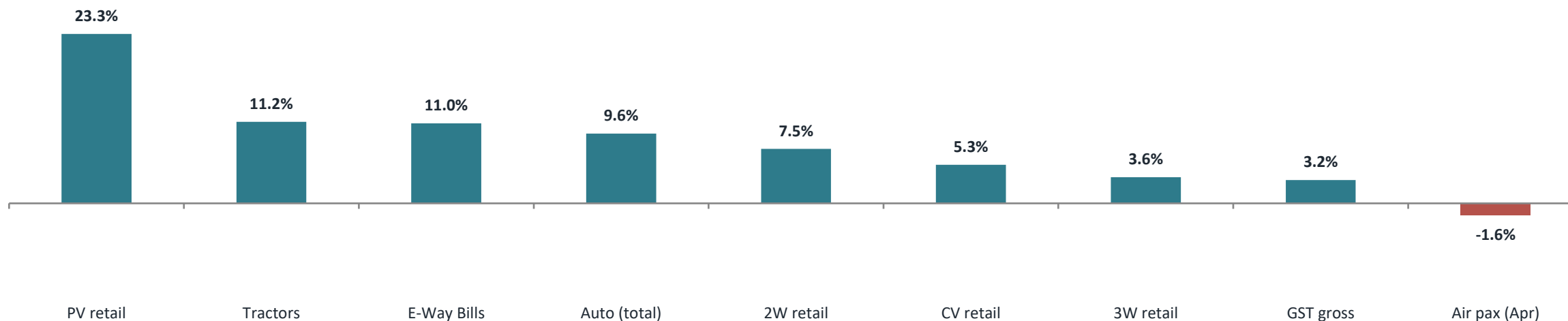
- Labour market dynamics:** Rural stabilisation anchors the headline even as urban conditions soften at the margin. **India's headline unemployment rate (UR) held steady at 5.5% in June 2026, unchanged from May (0 bps MoM), remaining marginally below the 5.6% recorded a year earlier.** The monthly composition reversed, with rural UR easing to 5.0% from 5.1% while urban UR rose to 6.6% from 6.4%, as rural male UR declined after a continuous rise from February 2026. On a year-on-year basis, urban UR improved markedly to 6.6% from 7.1% (-50 bps), while overall and rural UR were broadly stable.
- LFPR and WPR hold firm; urban indicators improve at the margin. **Labour Force Participation Rate (LFPR) was unchanged at 54.4% in June, holding above 54.2% a year earlier, while Worker Population Ratio (WPR) was steady at 51.4%.** Rural LFPR and WPR held at 56.6% and 53.8% respectively, while the urban labour market drove the marginal gains. Male WPR strengthened to 72.9% from 72.5%, improving over both the prior month and the year-ago level.
- Female labour market: Rural women drive the year-on-year gains, though urban female unemployment ticks up. Female LFPR was broadly stable at 32.7% versus 32.8% in May and stood 0.7 pp above its year-earlier level, led by rural women whose LFPR rose to 36.6% — up 1.4 pp from 35.2% in June 2025, while urban female LFPR held at 24.8%. On unemployment, however, the urban female UR edged up to 8.4% from 8.2% and the overall female UR rose to 5.9% from 5.6%, indicating that participation gains among women remain intact even as urban female job-seekers faced slightly tighter conditions this month.

Overall Assessment

- The June 2026 print depicts a labour market that has stabilised after May's seasonal softness, with the headline UR holding at 5.5% and participation and employment ratios firm. The most constructive signal is the turn in rural indicators — the decline in rural male UR and the resilience of rural participation — consistent with the onset of kharif sowing we had flagged as the key swing factor. The offsetting concern is a modest uptick in urban unemployment, including among women, which bears watching. On balance, the data support our view that May's weakness was largely seasonal rather than cyclical, and we expect rural labour indicators to strengthen further through the monsoon and kharif season, assuming the monsoons are reasonably normal.**

9. Demand Indicators

Consumer Demand Momentum



Select high-frequency indicators, May 2026. West Asia truce holds and monsoon risk builds, yet Bharat-led consumption stays resilient.

Rural demand

Rural retail led the May print. Passenger vehicles surged 23.3% YoY (rural 30.4% vs urban 18.8%), a best-ever May, on a small-car revival, healthy bookings and a richer CNG and EV mix. Tractors rose 11.2% and three-wheelers 3.6%, both record Mays, while two-wheelers grew 7.5% (rural 4.7%). CV retail at 5.3% saw rural (8.1%) outpace urban (2.6%), confirming goods-movement demand is broadening beyond the metros.

Urban demand

Urban demand held but moderated at the margin. Overall auto retail grew 9.55% YoY though it eased 6.8% MoM on the post-April lull, the heatwave and a late monsoon. GST gross rose 3.2% to Rs 1.94 lakh crore (adjusted for a year-ago telecom one-off, gross +9% and net +10.1%); E-Way Bills climbed 11.0% to 136.1 million, the fourth-highest ever. Domestic air traffic stayed the soft spot, down 1.6% YoY in April as ATF rose 23.5%.

Demand outlook

The consumption complex remains structurally resilient entering FY27. EV penetration crossed 11% for the first time as four May fuel-price hikes accelerated the powertrain shift. Headline CPI firmed to 3.93% in May (rural 4.25%, above the 4% mark) and the RBI held the repo at 5.25% with a neutral stance on 5 June, preserving real-income support. We watch monsoon progress against a subnormal and El Nino forecast, fuel pass-through and the truce.

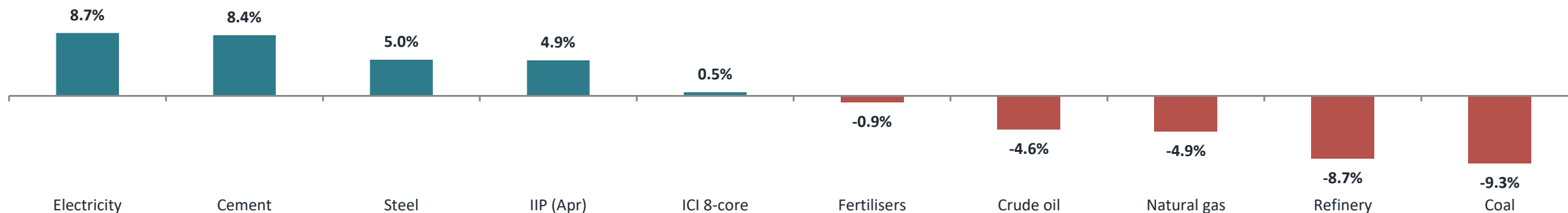
**55.0****MFG PMI (MAY)**

3-month high

59.8**SERVICES PMI (MAY)**

6-month high

Industrial & Services Momentum



Industrial and services momentum, May 2026. Energy-sector drag deepens, but steel, cement and power hold the capex cycle.

Industrial activity

Core-sector output (ICI) grew just 0.5% YoY in May (April final 1.8%) as the energy block dragged: coal fell 9.3%, refinery products 8.7%, natural gas 4.9% and crude oil 4.6%, on heatwave-led thermal substitution, weak extraction and West Asia disruption. Fertilisers slipped 0.9%. The construction block held firm, with cement 8.4%, electricity 8.7% and steel 5.0% on sustained government capex. IIP rose 4.9% in April, manufacturing 6.2%.

Services sector

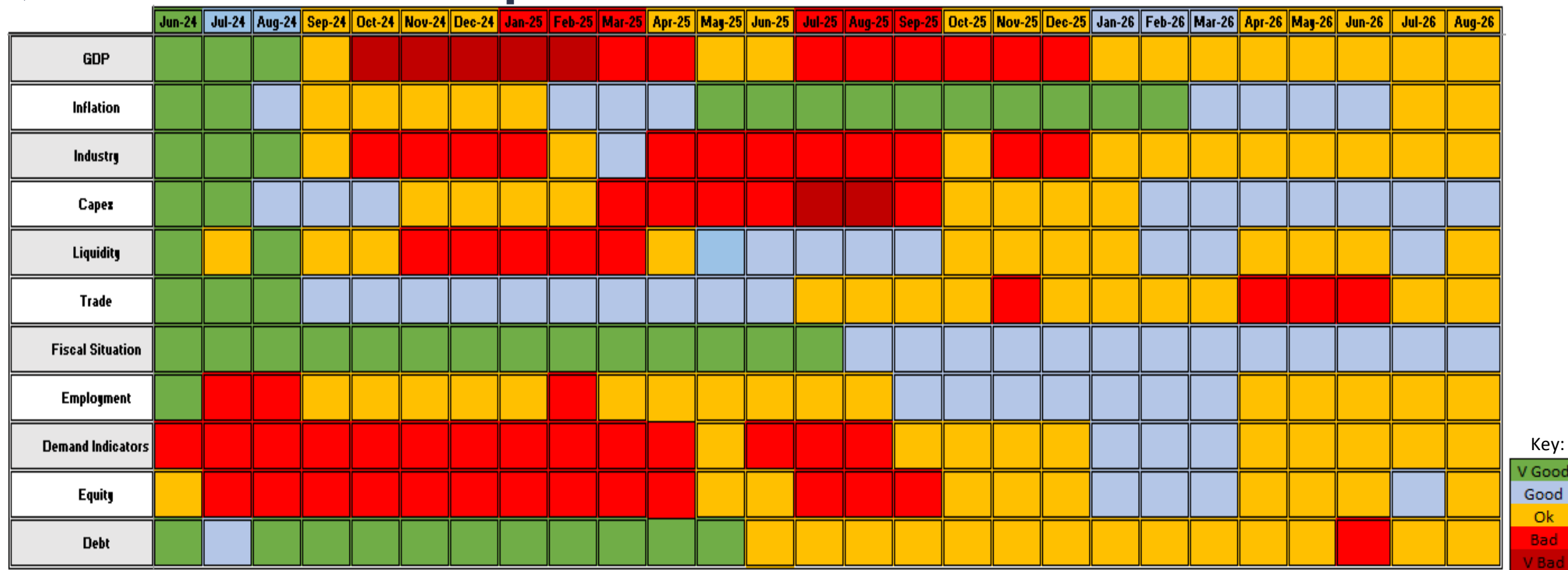
Services momentum stayed strong. The HSBC Services PMI was revised up to 59.8 in May, a six-month high, while Manufacturing PMI rose to 55.0, a three-month high, on faster new orders and output led by domestic demand. June flash readings softened (services 57.3, manufacturing 54.5) as fuel costs and gas shortages weighed, yet both held firmly in expansion. E-Way Bills and GST throughput corroborate resilient underlying activity.

Industrial & services outlook

We expect industrial momentum to recover toward 4 to 5% as Hormuz-linked supply pressures normalise and the energy base effect fades. Steel and cement should stay supported by the central capex pipeline, PLI-led manufacturing and rate-cut transmission. We watch the monsoon pass-through to power and fertiliser demand, ATF and freight feed-through from any breakdown in the truce, and the July core-sector and IIP prints.



Economic Heatmap



Tailwinds Outweigh Headwinds

India entered FY26 with a structurally sound domestic economy. What changed sharply was the external environment, which explains the deterioration in headline macros from Feb–Mar 2026 onwards. The US–Israel–Iran war (beginning February 28, 2026) and Iran’s effective blockade of the Strait of Hormuz triggered the most severe energy supply shock since the 1970s. With peace talks now progressing and the Strait reopened, much of that headwind is behind us: crude oil prices have normalized to ~80, and India’s CAD and fiscal position appear well under control. Private and public capex are in the early stages of an upcycle, with domestic demand also showing signs of a visible uptick. The one remaining headwind is the re–escalation of the Iran war, which if materializes, will change the commentary and outlook completely.





Equity Outlook





Market Cap Risk-Return Profile/ PE-Multiples



Year	Nifty 50 Return %												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CY
2026	-3%	-1%	-11%	7%	-2%	1%	0%						-9.0%
2025	-1%	-6%	6%	3%	2%	3%	-3%	-1%	1%	4.51%	1.87%	-0.28%	10.5%
2024	0%	1%	2%	1%	-1%	7%	4%	1%	2%	-6%	0%	-2%	8.6%
2023	-2%	-2%	0%	4%	3%	4%	3%	-3%	2%	-3%	6%	8%	20.0%
2022	0%	-3%	4%	-2%	-3%	-5%	9%	4%	-4%	5%	4%	-3%	4.3%
2021	-2%	7%	1%	0%	7%	1%	0%	9%	3%	0%	-4%	2%	24.1%
2020	-2%	-6%	-23%	15%	-3%	8%	7%	3%	-1%	4%	11%	8%	14.9%
2019	0%	0%	8%	1%	1%	-1%	-6%	-1%	4%	4%	2%	1%	12.0%
2018	5%	-5%	-4%	6%	0%	0%	6%	3%	-6%	-5%	5%	0%	3.2%
2017	5%	4%	3%	1%	3%	-1%	6%	-2%	-1%	6%	-1%	3%	28.7%
2016	-5%	-8%	11%	1%	4%	2%	4%	2%	-2%	0%	-5%	0%	3.0%
2015	6%	1%	-5%	-4%	3%	-1%	2%	-7%	0%	1%	-2%	0%	-4.1%
2014	-3%	3%	7%	0%	8%	5%	1%	3%	0%	4%	3%	-4%	31.4%
2013	2%	-6%	0%	4%	1%	-2%	-2%	-5%	5%	10%	-2%	2%	6.8%
2012	12%	4%	-2%	-1%	-6%	7%	-1%	1%	8%	-1%	5%	0%	27.7%
2011	-10%	-3%	9%	-1%	-3%	2%	-3%	-9%	-1%	8%	-9%	-4%	-24.6%
2010	-6%	1%	7%	1%	-4%	4%	1%	1%	12%	0%	-3%	5%	18.0%
2009	-3%	-4%	9%	15%	-4%	-4%	8%	1%	9%	-7%	7%	3%	75.8%
2008	-16%	2%	-9%	9%	-6%	-17%	7%	1%	-10%	-26%	-5%	7%	-51.8%
2007	3%	-8%	2%	7%	5%	1%	5%	-1%	12%	18%	-2%	7%	54.8%
2006	6%	2%	11%	5%	-14%	2%	0%	9%	5%	4%	6%	0%	39.8%
2005	-1%	2%	-3%	-7%	10%	6%	4%	3%	9%	-9%	12%	7%	36.3%
2004	-4%	-1%	-2%	1%	-17%	1%	8%	0%	7%	2%	10%	6%	10.7%
2003	-5%	2%	-8%	-5%	8%	13%	5%	14%	4%	10%	4%	16%	71.9%
2002	2%	6%	-1%	-4%	-5%	3%	-9%	5%	-5%	-1%	10%	4%	3.2%
2001	9%	-1%	-15%	-2%	4%	-5%	-3%	-2%	-13%	6%	10%	-1%	-16.2%
2000	4%	7%	-8%	-8%	-2%	7%	-9%	5%	-9%	-8%	8%	0%	-14.7%

Risk-return Measures	Nifty 50	Nifty Mid Cap 150	Nifty Small Cap 100
CAGR Return %	11.5%	14.4%	14.6%
Standard Deviation	21.5%	26.1%	30.0%
Avg Months with +ve return / yr	7	7	6
Avg Months with -ve return / yr	5	4	5
Avg Months with >6% decline / yr	1	1	1
No of Years	27	21	13

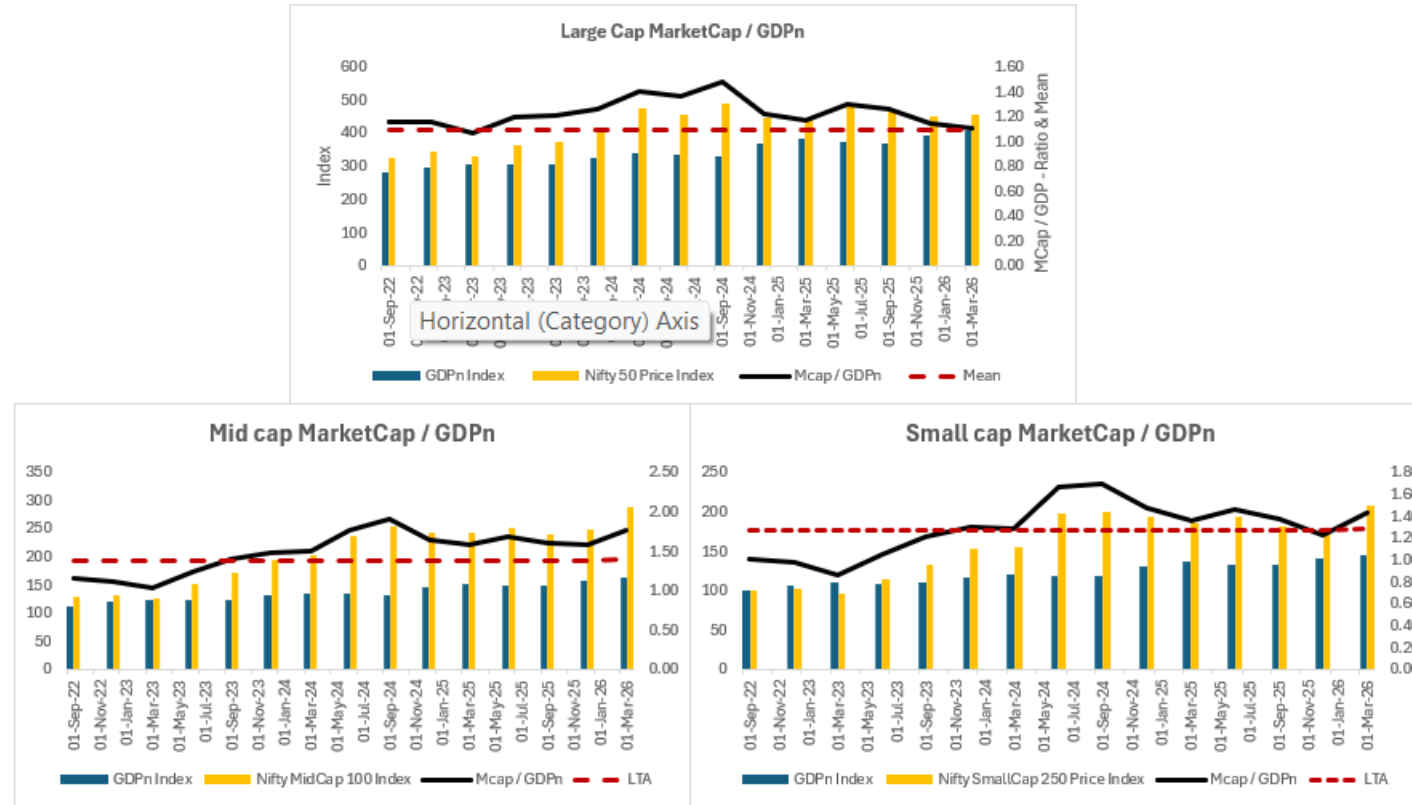
Ample Tailwinds

- The Nifty 50 has corrected by 9% this year amid mixed Q1 FY27 earnings, elevated inflation, and renewed West Asia tensions, keeping near-term sentiment cautious. However, easing crude oil prices, resilient corporate fundamentals, and improving private capex are reducing macro risks. With earnings expected to strengthen from Q2 FY27, the medium-term outlook for Indian equities remains constructive.
- The Risk-Return Matrix highlights the higher return potential of Mid and Small Caps, albeit with correspondingly higher volatility relative to Large Caps.
- On valuations, Large Caps appear Undervalued, Mid Caps Fairly Valued, and Small Caps Overvalued, suggesting a more favourable risk-reward proposition in the large-cap and mid-cap segment at current levels**

Market Cap	Current PE	Long Term Average PE	Premium / (Discount)	Valuation
Large Cap	20.06	23.71	-15%	Undervalued
Mid Cap	31.16	32.34	-4%	Fairly Valued
Small Cap	34.37	26.88	28%	Over Valued



Buffett Indicator



Present valuations remain moderate to attractive as evidenced by the premiums exhibited in their MCap/GDP ratios, where Large Caps are currently trading at a premium of approximately 1%, Mid Caps at a premium of approximately 21%, and Small Caps at a premium of approximately 10% to their respective long-term averages (as per the Buffett Indicator), as on 28th July 2026..

Source: Internal assessment based on RBI DBIE data and NSE India and Bloomberg



Sectoral Performance and Outlook

Q1 FY 27 Results declared

1047 / 5066



Banking & Financial Services

Q4 FY26 Performance:

The banking sector delivered a healthy Q4 FY26, with system credit growth holding at 13 to 15 percent year-on-year and asset quality broadly stable outside pockets of microfinance and unsecured retail stress. Net interest margins were largely stable as the bulk of the December repo cut had been transmitted and term deposits repriced. Public sector banks outperformed, aided by favourable credit-to-deposit ratios and steady recoveries, with Bank of India reporting a 15 percent rise in net profit alongside a sharp fall in NPAs. PSU banks were the best-performing sector in FY26, returning 26.61 percent, while the private bank index declined 5.59 percent.

Outlook:

We expect the sector to enter FY27 on firmer footing as margins bottom out and credit costs ease alongside moderating microfinance stress. Capital positions are comfortable, with median CAR above 17 percent, supporting healthy lending into retail, MSME and corporate segments. The RBI opening of acquisition financing and relaxed corporate exposure norms are incremental positives. Near-term margin reset on variable-rate loans remains a monitorable, and large banks with stronger CASA franchises are better placed. We favour selective exposure given the divergence between resilient PSU performance and weaker private bank sentiment through the year.

Information Technology

Q4 FY26 Performance:

IT services delivered a steadier Q4 FY26 than the prior quarter, with leaders returning to modest constant-currency growth. Infosys closed FY26 above the USD 20 billion revenue mark, growing 3.1 percent in constant currency for the year, with Q4 revenue of USD 5.04 billion up 4.1 percent year-on-year and an operating margin near 21 percent, supported by record large-deal wins of USD 14.9 billion and free cash flow of USD 3.7 billion. Mid-tier firms again outpaced larger peers on AI-led deal ramp-ups in BFSI and technology verticals. Profitability held within the low-twenties despite Labour Code provisioning.

Outlook:

We expect a cautious recovery through FY27, with managements guiding to modest revenue growth and stable margins of roughly 20 to 22 percent. Enterprise clients are moving from AI pilots to scaled deployments, with AI-led services emerging as a meaningful revenue stream. Deal pipelines remain healthy across BFSI and manufacturing, and Global Capability Centres continue to expand. Hiring stays selective, concentrated in AI, cloud and cybersecurity. The pace at which deal wins and AI adoption convert into recognisable revenue, alongside the US tariff overhang on discretionary technology spend, will determine the strength of the FY27 acceleration.



Pharmaceuticals & Healthcare

Q4 FY26 Performance:

Pharma posted a mixed Q4 FY26. Sector revenue grew around 10 to 12 percent year-on-year, led by domestic formulations in chronic therapies such as cardiology, diabetes and oncology, but aggregate profitability fell, with coverage-universe PAT estimated down 6 to 14 percent year-on-year. The principal drag was the gRevlimid exclusivity cliff in the US from January 2026, which compressed earnings for players most exposed to the molecule. A rupee past 90 to the dollar aided export realisations, GST on several medicines was cut to 5 percent, and the early March launch of generic semaglutide set up an FY27 tailwind.

Outlook:

We retain a constructive structural view, anchored by ageing demographics, rising chronic-disease prevalence and India expanding position as a global CDMO hub. Domestic formulations should sustain 8 to 12 percent growth, supported by chronic-therapy momentum, new launches and the obesity and diabetes opportunity around GLP-1 generics. US pressures persist, though complex injectables, peptides and biosimilars offer richer margins for differentiated portfolios. We expect EBITDA margins in the 18 to 22 percent band through FY27, with earnings re-acceleration likeliest for innovator-aligned and specialty-heavy companies as the gRevlimid base normalises.

Automobiles & Auto Ancillaries

Q4 FY26 Performance:

Q4 FY26 capped a strong year for autos. Passenger vehicles recorded their highest-ever Q4 at 13.16 lakh units, up 13.2 percent year-on-year, while FY26 PV volumes reached a record 46.43 lakh units, up 7.9 percent, with a sharp H2 recovery of 16.7 percent reversing a soft first half (SIAM). GST rationalisation, personal income tax relief and successive repo cuts lifted affordability across segments. Electric penetration accelerated, with electric PV registrations up over 80 percent in FY26 and electric two-wheeler share reaching around 9 percent. Auto ancillaries benefited from volume leverage, partly offset by precious-metal and commodity cost pressures.

Outlook:

We see the structural growth trajectory intact for FY27, with some normalisation after a strong base. Industry projections point to mid-single-digit PV wholesale growth and 6 to 9 percent two-wheeler growth, while tractor expansion may moderate after Maharashtra subsidy-led gains. The long-term story is increasingly defined by electrification, supported by PM E-DRIVE, PLI incentives and aggressive OEM investment. CAFE norms and mandatory safety compliance may raise entry-level pricing and constrain the sub-compact segment. A richer product mix, steady EV ramp-up, rural income recovery and export expansion should keep the sector on a 6 to 8 percent volume path.



Capital Goods

Q4 FY26 Performance:

Capital goods delivered a differentiated Q4 FY26. Order inflows and revenues broadly held up, with transmission and distribution a clear standout as renewable evacuation, grid stability and data-centre demand drove ordering for transformers, switchgear and specialty cables. Data centres emerged as a major cross-cutting theme across power generation, cooling and electrification suppliers. Margins were pressured as most firms could not fully pass through commodity inflation and a weaker rupee. The escalating West Asia conflict disrupted execution and supply chains for internationally exposed players, a headwind that intensified into Q1 FY27.

Outlook:

We remain selectively positive and policy-anchored. Central government capex reached approximately Rs 10.8 trillion in FY26, around 98 percent of the revised target, with the FY27 Union Budget sustaining elevated infrastructure and defence allocations. The energy-transition super-cycle, encompassing grid modernisation, battery storage and green hydrogen, should sustain T&D and equipment demand through the decade, with data centres an emerging high-value vertical. Private capex recovery is expected to lead in electronics manufacturing, EV supply chains and renewables. Copper, aluminium and zinc cost pressures, alongside geopolitical execution risk, remain near-term margin monitorables

Infrastructure (EPC & Construction)

Q4 FY26 Performance:

Infrastructure faced a mixed Q4 FY26. Industry order inflow improved modestly to around Rs 565 billion versus Rs 548 billion in the prior quarter, with diversified and railway players outperforming road EPC. Execution and earnings, however, lagged. L&T, the sector bellwether, reported a 3.1 percent fall in Q4 net profit to Rs 5,326 crore and FY26 revenue growth of 12 percent against a 15 percent guidance, citing roughly Rs 50 billion of revenue lost to West Asia disruptions and domestic water-project delays. Its order backlog stood at a record Rs 7.4 trillion, with international orders at 52 percent.

Outlook:

we maintain a constructive medium-term stance underpinned by policy tailwinds, with the FY27 Union Budget lifting infrastructure capital expenditure across roads, railways and urban projects. Order books provide multi-year revenue visibility, and working-capital pressures should ease as government disbursements improve. EPC players sit on favourable risk-reward given low inflows, muted growth expectations and modest valuations, with diversification into solar, transmission and railways supporting growth. Geopolitical execution risk and receivable cycles remain critical differentiators, and we prefer diversified players over those with concentrated road EPC exposure.



Power & Renewable Energy

Q4 FY26 Performance:

The power sector saw moderating demand alongside record clean-energy momentum in Q4 FY26. Electricity generation grew just 3 percent year-on-year, the slowest Q4 in six years, even as solar generation rose 24 percent and wind 11 percent (CREA). Installed capacity reached around 533 GW by March 2026, with non-fossil sources at roughly 53 percent and solar near 150 GW. FY26 marked the highest-ever annual capacity addition, with renewables contributing about 75 percent. Grid integration emerged as a structural constraint, with meaningful solar and wind curtailment concentrated in high-renewable states such as Gujarat.

Outlook:

We view the structural growth trajectory as among the most compelling in the economy, with India tracking ahead of schedule toward 500 GW of non-fossil capacity by 2030. Solar module prices remain near historic lows, keeping project economics attractive, while the FY27 Budget enhanced grid and transmission allocations support execution. The T&D segment is entering a multi-year upcycle as evacuation corridors, pumped storage and smart metering require significant deployment, and the absorption challenge makes storage central. Green hydrogen is emerging as a credible adjacent opportunity, and peak demand continues to set fresh records.

Fast Moving Consumer Goods (FMCG)

Q4 FY26 Performance:

FMCG closed FY26 on a resilient note. Leading companies reported stronger-than-expected Q4 earnings as rural demand recovery, premiumisation and product innovation offset inflationary and freight pressures. Nestle India posted a standout quarter with net sales up 22.6 percent year-on-year and net profit up 27 percent. Sector data pointed to a softer underlying volume backdrop, with rural growth easing in the December quarter before improving, while GST rate cuts and income tax relief supported demand. Operating profitability held broadly stable as companies passed through commodity costs and quick commerce kept expanding in urban markets.

Outlook:

We expect sector revenue growth of 6 to 8 percent in FY26, a rebound from FY25 levels, with the recovery led by volume normalisation and modest realisation gains. Rural India structural consumption upgrade remains a multi-year theme, with rising basket sizes narrowing the urban-rural gap. GST rationalisation and Budget tax relief should provide an incremental urban consumption boost. Quick commerce, now a sizeable share of metro FMCG sales, is reshaping distribution. Input-cost volatility in palm oil, coffee and wheat, alongside intensifying competition from regional and D2C brands, will constrain margin expansion through FY27.



Cement & Building Materials

Q4 FY26 Performance:

Cement delivered a strong Q4 FY26, its seasonally peak quarter, as pricing discipline returned and demand firmed. UltraTech reported India grey cement volumes of 42.41 million tonnes, up 9.3 percent year-on-year, with capacity utilisation at 89 percent, consolidated EBITDA up 21 percent year-on-year, and EBITDA per tonne rising 11 percent year-on-year to a multi-year high of Rs 1,253. FY26 consolidated profit crossed Rs 8,000 crore for the first time. National cement production rose around 8.6 percent for the year to 491.4 million tonnes, and consolidation continued, with UltraTech reaching 200 MTPA, the first such milestone outside China.

Outlook:

We hold a positive medium-term view aligned with India infrastructure investment cycle. Prices recovered across regions in early 2026, supporting profitability, and industry volumes are expected to settle around 7 to 8 percent growth as consolidation reduces fragmented price competition. Cost efficiency through higher green-power mix, alternative fuels and lower lead distances is increasingly visible in operating leverage, with UltraTech raising green power toward 85 percent by FY30. Rising petcoke and energy costs are a near-term margin headwind. Sustained capacity expansion will require demand growth to keep pace to prevent margin dilution.

Metals & Mining (Steel)

Q4 FY26 Performance:

Steel delivered a strong Q4 FY26 as the safeguard-duty-led price recovery fed through to margins. Domestic HRC prices rose around 11 to 12 percent year-on-year and quarter-on-quarter, with spot HRC reaching about Rs 52,400 per tonne. Tata Steel reported consolidated adjusted EBITDA up 20 percent quarter-on-quarter to Rs 9,950 crore, with standalone EBITDA per tonne of Rs 15,245, while JSW Steel posted Indian-operations EBITDA up about 40 percent quarter-on-quarter at Rs 11,622 per tonne. FY26 domestic demand reached 163.7 million tonnes, up 7.7 percent, while exports rose 36 percent and imports fell 32 percent, reinforcing India net-exporter status.

Outlook:

We retain a constructive view, supported by strong domestic demand, policy protection and price recovery. We expect domestic steel demand to grow around 7 to 8 percent, driven by infrastructure, automotive and capital goods end-markets. The three-year safeguard duty extension, notified at end-2025, has restored pricing power and a meaningful floor for domestic prices, with margins set to expand further into Q1 FY27. Risks include a potential rollback of safeguard duties post the sunset period, the ambitious 80 to 85 million tonne capacity expansion pipeline, and persistent Chinese export pressure on global prices. Green steel is a long-horizon opportunity.



Real Estate

Q4 FY26 Performance:

Residential real estate sustained its multi-year upcycle in Q4 FY26, with premium and luxury segments continuing to outperform even as overall volumes moderated from peak levels. Launch-heavy developers reported robust pre-sales while those without major launches were muted. Godrej Properties recorded record FY26 pre-sales of Rs 34,171 crore, up 16 percent year-on-year across 17,515 units, likely making it the largest listed developer by bookings, while Lodha posted FY26 pre-sales of Rs 20,530 crore with Q4 consolidated PAT of around Rs 1,008 crore. Office leasing momentum stayed resilient, and developers continued aggressive land acquisition for multi-year visibility.

Outlook:

We see FY27 as a phase of moderated but sustainable growth, transitioning toward execution-driven consolidation. Affordability is improving as banks pass through repo cuts to home-loan rates, and a single-window clearance framework should compress approval timelines and lift execution velocity. The commercial segment remains a high-conviction area as Grade A demand stays firm and GCC expansion continues, while REITs and emerging SM-REITs improve capital efficiency. Near-term risks include supply overhang in select luxury micro-markets and approval delays. Price appreciation should continue to outpace income growth in residential presales for leading listed developers.

Consumer Durables & Electronics

Q4 FY26 Performance:

Consumer durables saw a divergent Q4 FY26. Electronics manufacturing services sustained strong momentum on PLI benefits and import substitution in mobiles and IT hardware, with players such as Dixon outperforming. Cooling, however, had a difficult year, as the room air-conditioner industry contracted around 10 to 12 percent in FY26 on a high base and a milder summer. Voltas reported a sharp profit decline despite record quarterly revenue as margins compressed under copper and aluminium inflation, rupee depreciation and intense competition across more than sixty brands. The white-goods PLI scheme drew investment commitments from 85 companies.

Outlook:

We expect the sector to regain momentum through FY27, anchored by low appliance penetration, rising household incomes and accelerating electrification. The RAC industry is expected to rebound to 15 to 20 percent volume growth in FY27, aided by the GST cut from 28 to 18 percent and modest price hikes. EMS companies remain well placed to benefit from global supply-chain reconfiguration away from China, deepening India role as a manufacturing and export hub. Premium and connected categories should outgrow the market. Commodity-price volatility, rupee depreciation on import-dependent inputs and Chinese competition are key risks.

Early Q1 trends

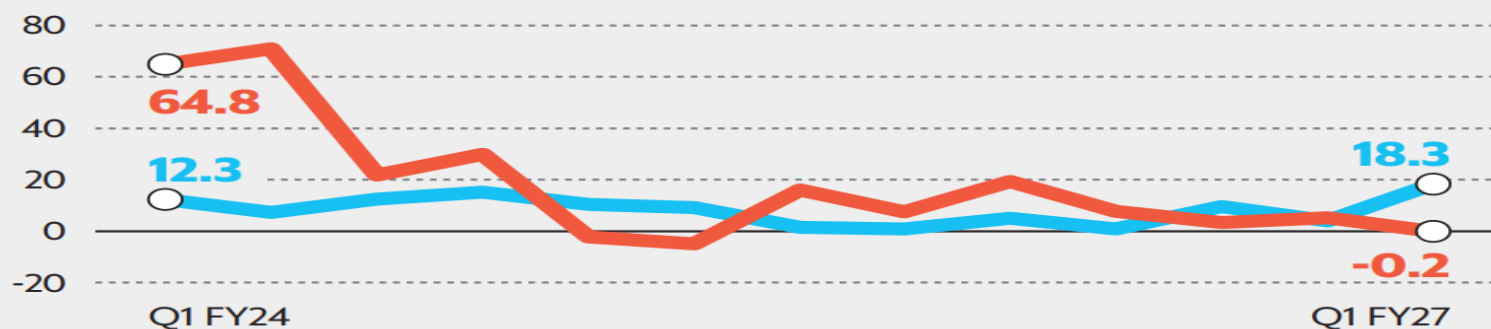


Profit puzzle

While firms were able to lift their revenue, they struggled to convert that growth into profits.

REVENUE OUTPACES PROFIT

— Total income — Net profit Aggregate year-on-year change (in %)



Analysis based on standalone earnings of 393 companies
Source: Mint analysis

mint

India Inc.'s Q1FY27 earnings have presented a mixed picture, with companies reporting a healthy **~18% year-on-year revenue growth** but a **marginal 0.2% decline in profits**, reflecting significant pressure on operating margins. **While robust domestic demand and normalised inflation supported top-line growth, elevated raw material prices, higher logistics costs, and supply chain disruptions driven by ongoing geopolitical tensions and the war led to increased input costs, weighing on corporate profitability.** Sector-wise, **Banking & Financial Services, Capital Goods, Infrastructure, Defence, Railways, and select Auto companies** delivered strong earnings backed by healthy demand, improving order books, and resilient execution. On the other hand, **FMCG and parts of the Oil & Gas sector** witnessed subdued profitability due to weaker realizations, higher input costs, and margin compression.

Overall, the earnings season highlights that while demand remains resilient across the economy, margin recovery will be the key driver for earnings growth in the coming quarters as cost pressures gradually moderate.

Tailwinds

- **Macroeconomic resilience** despite global geopolitical uncertainties, with India continuing to outpace major economies in GDP growth.
- **Domestic consumption remains resilient**, aided by stable employment, rural recovery, and improving discretionary demand.
- **Healthy corporate balance sheets and sustained private capex**, supported by robust order books in industrials, infrastructure, and power.
- **Improving earnings outlook**, with Q1 FY27 results largely in line with expectations and stronger growth anticipated from Q2 as demand normalizes.
- **Reasonable valuations in select sectors** following the recent market correction, creating attractive opportunities for long-term investors.
- **Continued government focus on infrastructure, manufacturing, and defence**, reinforcing investment-led growth through public spending and PLI initiatives.
- **Trade agreements and supply-chain diversification trends** supporting export-oriented industries.
- **Favourable monetary conditions**, with inflation expected to moderate as energy prices ease, supporting expectations of a more accommodative RBI stance over the coming quarters

Headwinds

- **Global growth slowdown risks** remain, with softer demand from key developed markets weighing on exports, particularly IT services, chemicals, and textiles.
- **Persistent geopolitical uncertainty in West Asia** continues to pose risks to energy prices, global trade, and investor sentiment despite some easing in tensions.
- **FPI flow volatility** could persist amid elevated global risk aversion, uncertainty around the US interest-rate trajectory, and a stronger US dollar.
- **AI euphoria** and **slower global tech spending** are the key headwinds for Indian IT companies.

Outlook

- **Volatility may persist in the near term, but the market retains a positive medium-term bias, supported by strong domestic fundamentals, improving earnings visibility from Q2 FY 27, and a strengthening private investment cycle.**

Suggested Strategy

➤ Gradual Accumulation

Category	Stance
Large Cap	Optimistic
Mid Cap	Cautiously Optimistic
Small Cap	Risky



Debt Outlook

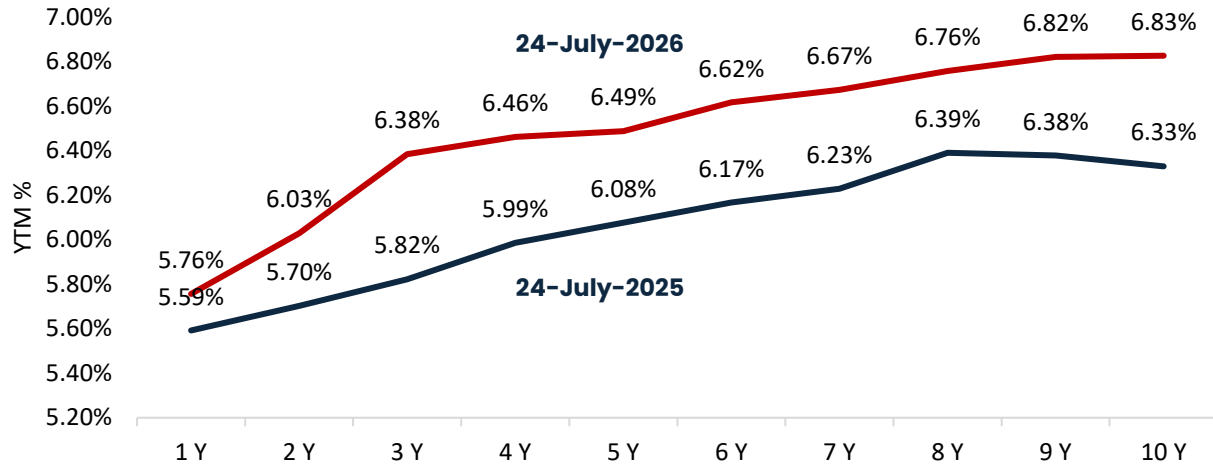




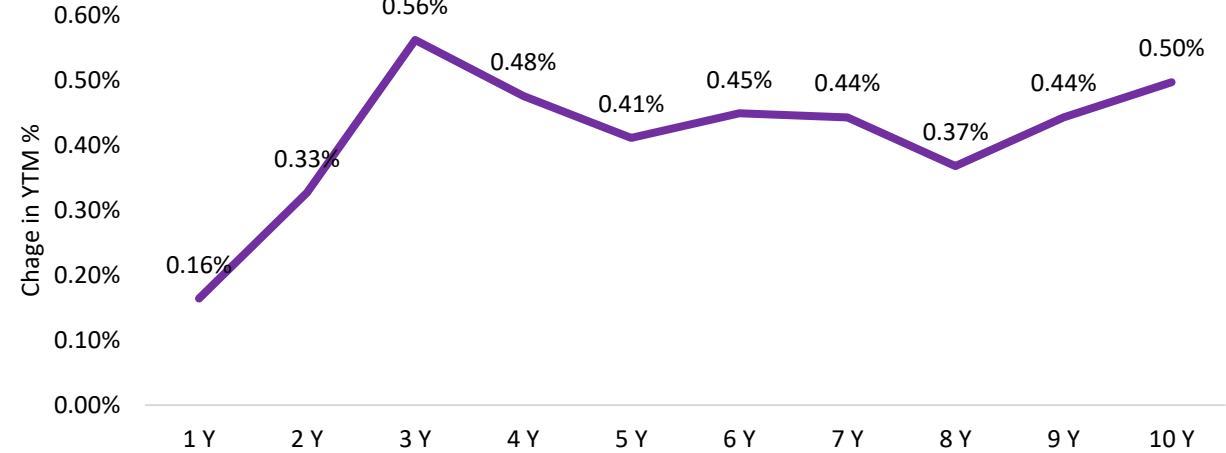
Yields Curve Dynamics



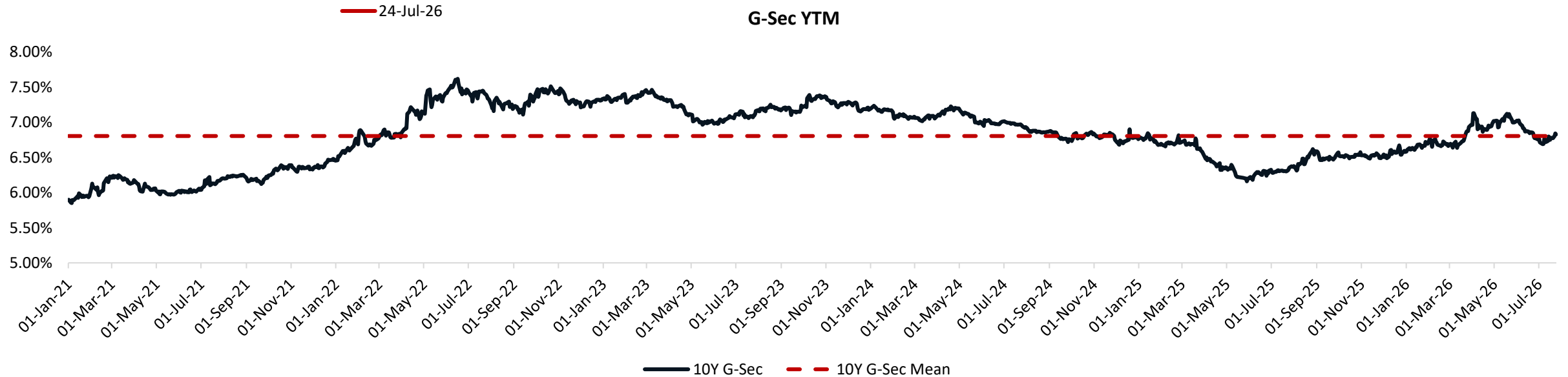
Change in Yield Curve



10Y GSec 1Y Delta - Bear Steepening



G-Sec YTM





Debt Market Outlook & Strategy



Escalation Returns, Our Anchors Hold

We stay overweight market risk, selective at the front of the corporate curve and long the back end of the government curve

- **West Asia tensions have flared up again over the past couple of days**, and oil now sits more than 15% above the lows touched earlier in the month. The not so recent **market anxieties have returned with them**. Our framework has not changed, and neither has our positioning. **We continue to read the war through its effect on the balance of payments and on system funding, rather than through a conventional growth inflation trade off**. Seen that way, the picture is mixed but far from alarming. **Two anchors give us immediate comfort, a now better understood central bank reaction function and the recent package of balance of payments measures. A softening AI trade and a benign oil surplus narrative are grounds for optimism that is real but not yet realised. Only the global rate backdrop is a source of genuine concern. On balance, we stay overweight market risk.**

Our Lens, We Read the War Through Funding Stress Not a Growth Inflation Trade Off

- The impossible trinity remains the right lens. **Weak capital flows have pressured the rupee, which has in turn tightened domestic financial conditions and pushed yields higher**, even through rate cuts and benign policy commentary. **The weakness in flows, despite sound domestic macros, traces to three drivers, higher global rates, alternate themes absorbing global capital chiefly the artificial intelligence trade, and the West Asia war. Renewed escalation does not introduce a new risk so much as it accentuates the funding stress already in the system.**
- Crucially, almost nothing beyond the very front end is priced off the repo rate, even after the recent fall in yields. **Market rates today reflect the funding strain far more than any fear of rate hikes. That single point is what lets us stay constructive**, without first having to settle the question of how many hikes, if any, lie ahead.

The Global Rate Backdrop Is the One Downright Concern

- **The US two year government yield is now above its recent peak. That is a clear sign that factors well beyond oil are driving US rate expectations. The country's new central bank leadership has, at least on first appearances, come across as more hawkish than the market had positioned for.**
- **Underlying US data stays generally resilient, led by capital expenditure on artificial intelligence, and consumer spending looks robust even though savings rates are not high, employment growth is uneven, and the tax stimulus from the start of the year is largely fading.** Adding to the impending strain, **even as oil fell sharply, fuel product prices did not, because of constraints on refining capacity. The US consumer is weathering the headwinds for now, but there are legitimate doubts about that pace holding.** For a market whose binding constraint has been global rates through the funding channel, this is the point of clearest concern.



The AI Trade Wobbles, a Potential Tailwind for India

- **The artificial intelligence trade has been under pressure over the past few days, with several frontline names showing heightened volatility**, and the narrative that the cost of adoption is itself a headwind is steadily gathering pace. We also note recent commentary from a few large global asset allocators about the **need to diversify somewhat away from the theme**. Should that need broaden, **India can begin to see some revival of capital flow. There are incipient signs of this in recent data, though it is far too early to extrapolate.**
- Taken a step further, and we stress this is speculation for now, a genuine loss of momentum in the theme could show up in reduced capex intensity. That would be one more trigger for a redistribution of global capital and, we would hope, some easing of pressure on global rates, particularly in the US. **In other words, the very theme that has drained capital away from emerging markets could, if it fatigues, become a source of relief on the two variables that matter most to us, flows and rates.**

Oil, Read the Surplus Narrative Against a Conservative Policy Assumption

- **In the recent spell of calm, the extent of the fall in oil surprised most of the market. Despite the need to rebuild inventories, Brent almost retouched USD 70 a barrel, and reports of a large surplus from next year have been doing the rounds. If that surplus is real, it is worth holding on to through this renewed escalation, because it caps how far and how durably any war premium can hold.**
- It is also worth remembering that the central bank's latest projection assumes USD 95 for oil, while it is trading closer to USD 85 at the time of writing. That gap is a cushion. The inflation and subsidy arithmetic the market frets over is being run off a deliberately conservative starting point.

The Policy Reaction Function Is Now Clearer and Core Inflation Stays Benign

- The monetary policy committee's assessment and reaction function are much better understood now. **The disposition is to be patient and watch for second order effects before acting, which is why core inflation excluding valuables has become the focus.** Watching that measure does not mean the committee has stopped targeting headline inflation. It means it is **isolating the persistent part of inflation in a period of unusually volatile food and fuel prices, which is entirely consistent with waiting to see whether second round effects actually show up. Unlike the US, India's core inflation pressures remain quite benign.**
- Our view therefore is that **policy will not hike more than 50 bps in this cycle, and not before the October review. The negative framing is deliberate. We are not yet fully convinced that even those 50 bps of hikes will happen.** And because almost nothing beyond the front end is priced off the repo rate, whether they come or not has very little bearing on how we are positioned.



The Balance of Payments Floor Is Being Actively Defended

- Policy makers have taken substantial recent steps to put at least a temporary floor under the balance of payments. The measures matter, and so does the intent they signal. Shoring up capital flows is clearly a policy priority now, and we expect further steps under this theme in the weeks and months ahead.
- We would flag one caveat we have made before. Windows such as the foreign currency deposit route bring in temporary money that reverses when the deposits mature, so the time they buy must be used to put more durable capital flow measures in place. A fatiguing AI trade would be a helpful tailwind here as well, though that is plainly outside the control of domestic policy.

Our Stance, Selective at the Front and Long at the Back

- We stay overweight market risk, with a continued preference for up to 3 years on the corporate bond curve and 14 years and beyond on the government bond curve. The reasoning is straightforward. The **two casualties** of the worst of the impossible trinity have been **corporate bond spreads** and, on the government curve specifically, **term spreads**. Positioning at the front of the corporate curve, including bank certificates of deposit, and at the back of the government curve lets us participate in both as the respective stresses unwind, while keeping genuine duration in the book.
- Scoring this note against that stance, the **clearer policy reaction function and the balance of payments measures give immediate comfort**. The **softening AI trade and the oil surplus narrative are grounds for optimism that is real but not yet in the price**. The global rate backdrop remains the one genuine concern. As always, **this is our current thinking and it may change**. If anything, the renewed volatility is a timely reminder not to get too tactical with the market and to keep due investment horizons as well as asset allocations firmly in mind.



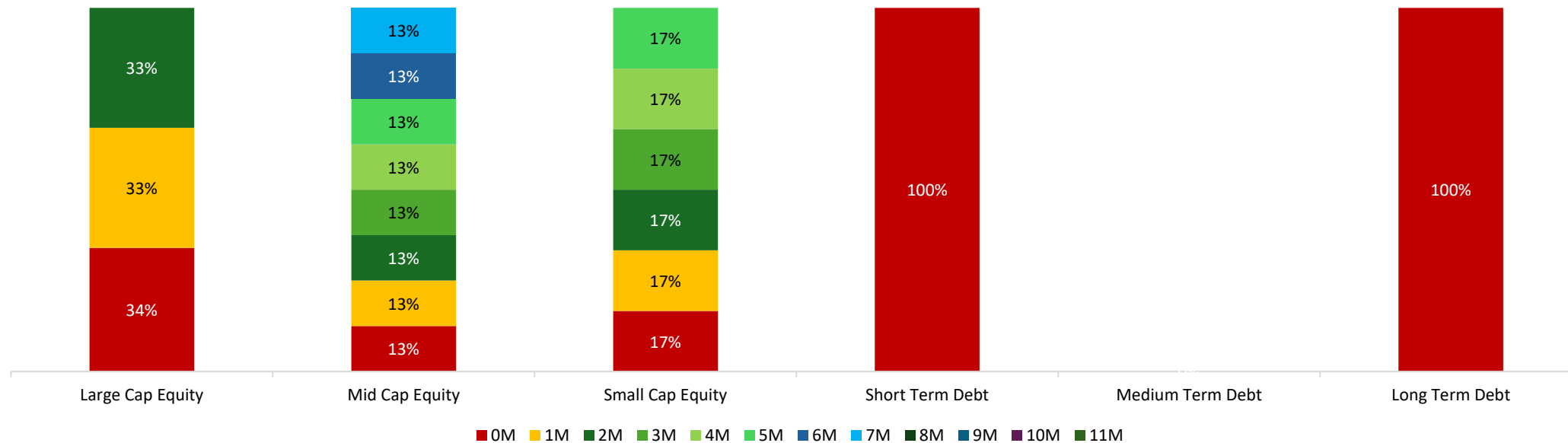
Deployment Strategy



Deployment



Stages of Deployment



Indicators:

Indicators to track for caution –

- FII flows remain volatile, with sustained inflows yet to resume as global interest rate uncertainty and geopolitical risks continue to influence sentiment.
- India VIX at ~12.66 – Volatility remains subdued, though geopolitical or global macro risks could trigger a spike.
- Mid- and small-cap valuations remain above long-term averages despite the recent correction, leaving limited room for disappointment if earnings recovery is slower than expected.

Indicators signaling turnaround and optimism –

- DIIs remain strong net buyers, providing stability amid FII volatility.
- Private capex and infrastructure spending continue to support the investment cycle.
- Large-cap valuations remain relatively attractive.
- Private capex and infrastructure spending continue to support the investment cycle.

Deployment Strategy:

Staggered Deployment over the next 12 months –

- Large Cap – 34% immediate deployment and 33% in each month in the next 2 months
- Mid Cap – 12.5% immediate deployment and 12.5% in each month in the next 7 months
- Small Cap – 12.5% immediate deployment and 12.5% in each month in the next 7 months
- Debt – 100% immediate deployment (barbell strategy at the short end (0-3 yrs) of the yield curve or Arbitrage Funds, and long term govt debt (14+ yrs)

Optimus Prime Model Portfolio

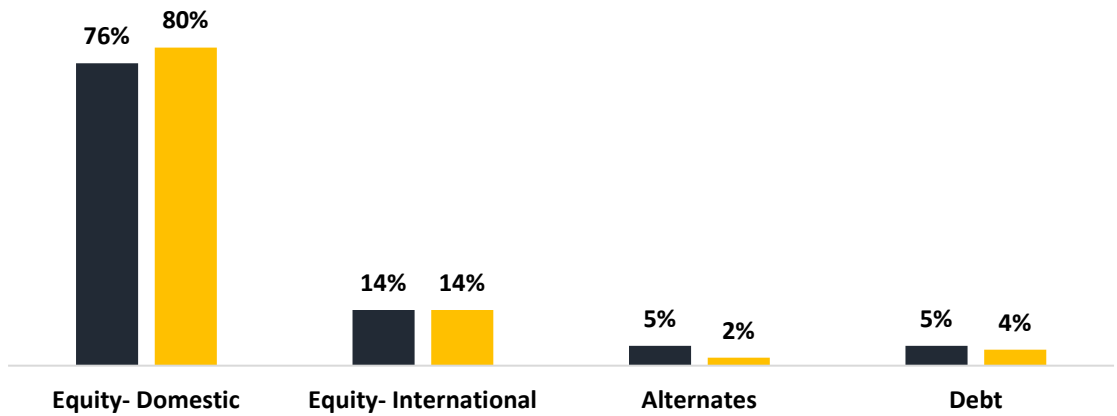
Aggressive Strategy





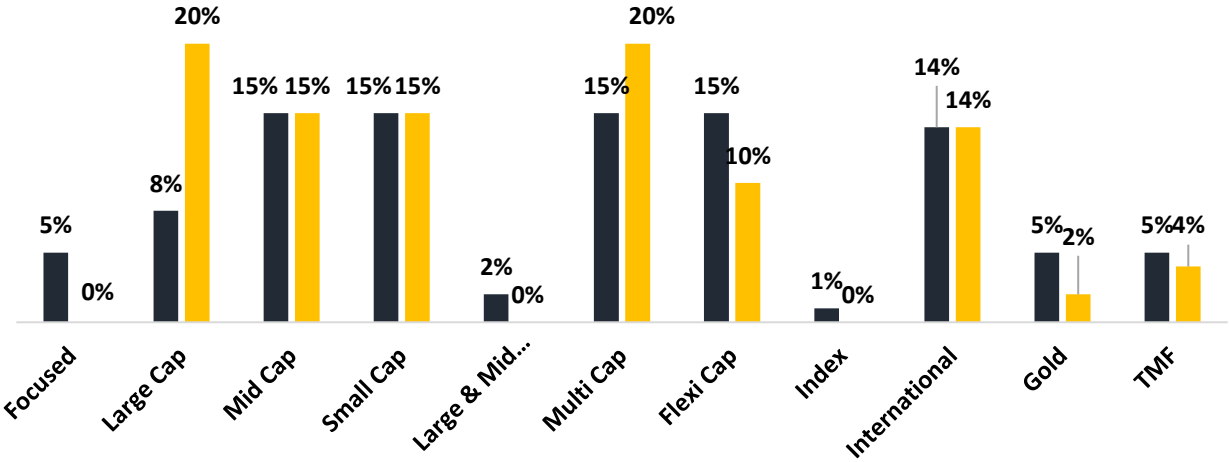
Asset Allocation

■ SAA ■ TAA

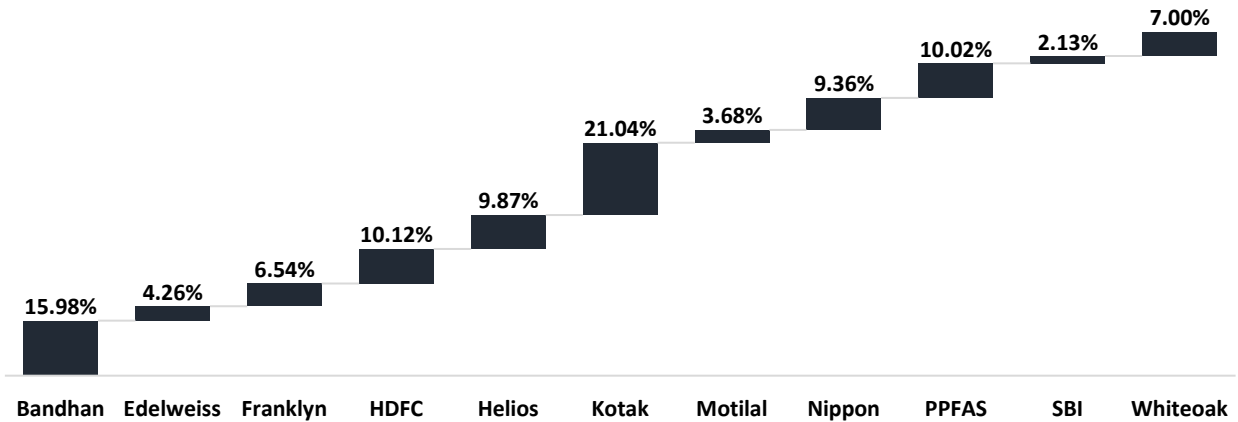


Category Allocation

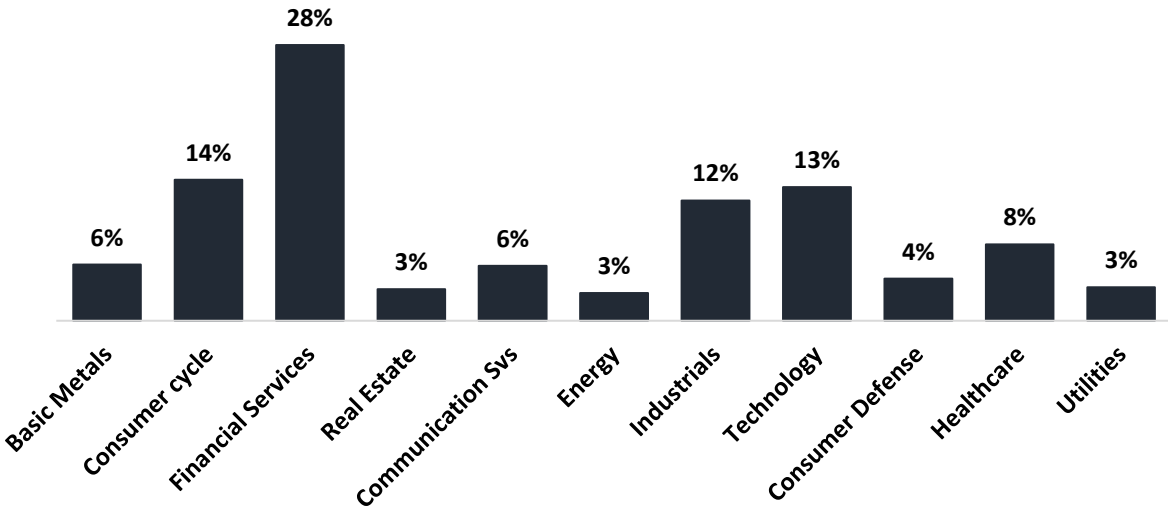
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Fund House Allocation



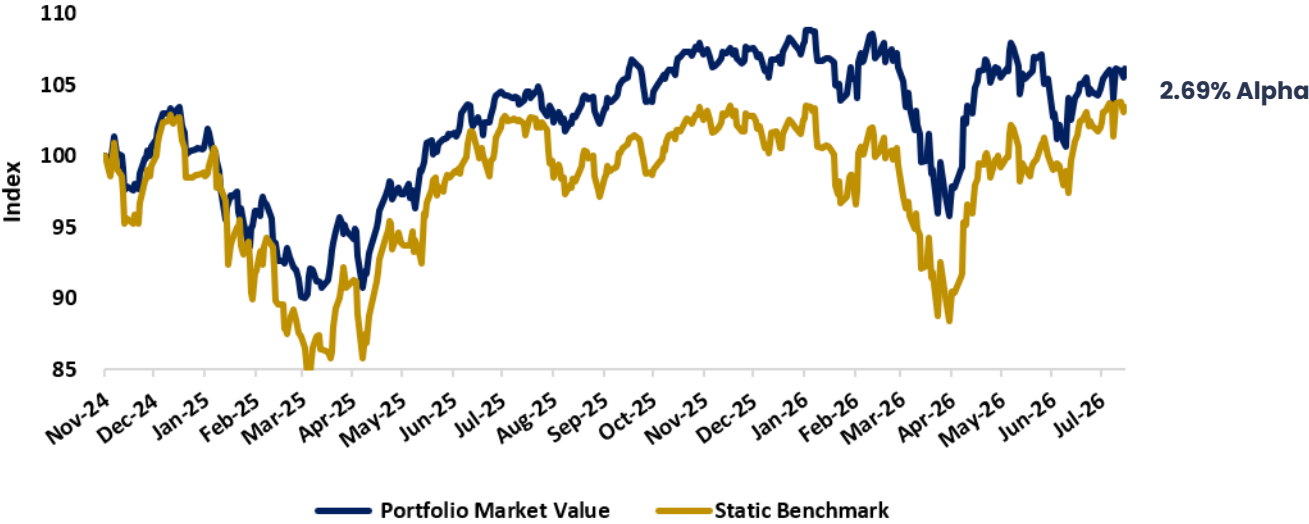
Sectoral Allocation



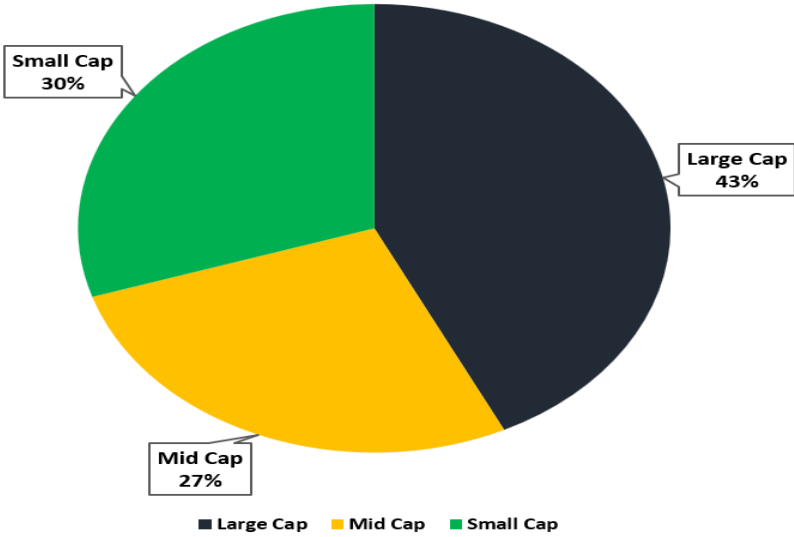
***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation.** International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th July 2026, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR - 5.00%, NSE 100 India TR INR - 30.00%, NSE Midcap 150 TR INR - 30.00%, NSE Small cap 250 TR INR - 30.00%, NIFTY 11-15 YR G-SEC INDEX - 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.



Portfolio vs Benchmark



Portfolio Market Cap Mix



Portfolio Performance Analytics

Analytics	Portfolio	Benchmark
Abs / CAGR Return	6.15% / 3.57%	3.46% / 2.02%
Standard Deviation (annualized)	12.61%	15.65%
Beta	0.49	
Alpha (Abs / CAGR)	2.69% / 1.55%	
Information Ratio	3.31	
Downside Capture	72.76	

Debt Portfolio Analytics

Debt Measures	Jul-26
Average MoD	4.74
Average Maturity	4.74 yrs
Average Coupon	NA
Average YTM	7.69 %
Average Credit Rating	Jul-26
AAA	100%
AA	0%
A	0%

***SAA - Strategic Asset Allocation & TAA - Tactical Asset Allocation.** International Allocation considered as Equity Allocation, Arbitrage Funds & Liquid Funds Allocation, if present are considered as Debt Allocation, and is temporarily parked for the short term and will be deployed opportunistically, Portfolio Inception date - 1st November 2024, Portfolio values are as on 15th July 2026, Returns under 1 year are absolute and returns over 1 year are annualized. The benchmark indices for each fund are carefully selected to align with their respective investment objectives for the Attribution Analysis. The benchmark weights remain static as per the SAA. The constituent benchmarks for all other calculations are: NSE 500 India TR INR - 5.00%, NSE 100 India TR INR - 30.00%, NSE Midcap 150 TR INR - 30.00%, NSE Small cap 250 TR INR - 30.00%, NIFTY 11-15 YR G-SEC INDEX - 5.00%. All returns are pre-tax unless specifically mentioned. Optimus Prime Model Portfolio is an Aggressive portfolio strategy with a timeframe over 10 years.



Current Investment Portfolio Stance: **Aggressive**



Positioning & Portfolio Update

In our July 2026 Investment Advisory Committee meeting, the Committee unanimously resolved to shift to an **Aggressive investment stance**. We maintain the same stance, remaining constructive on Large and Mid Caps, with a bottom-up approach and heavy skew towards Quality.

Our stance is underpinned by a domestic macro backdrop that has strengthened even as the external environment remains uncertain. India closed FY2025-26 with **real GDP growth of 7.7%**, keeping it the fastest-growing major economy for a third consecutive year, with Q4 investment momentum particularly strong — **GFCF surged 10.8% YoY** and machinery imports rose 24.9%, confirming a genuine private-plus-public capex revival. **Capacity utilisation held above its long-run average at 75%** for a second consecutive quarter, a level that has historically triggered a shift from brownfield to greenfield capex, while **system credit growth of 17.7% YoY continues to outpace deposits**, evidencing firming investment demand, albeit with a high CDR and this problem seems structural as witnessed across the banking sector with its NIMs under constant pressure. **Headline inflation, rose by 4.38% in June, remaining within the RBI's comfort band, however is expected to rise through the year on an unfavourable base and supply chain disruptions**. With **low participation in the Indian markets by FPIs on account of the anti-AI trade**, as well as tepid net FDI flows, the rupee continues to be under pressure and the RBI continues its tactical efforts to shore up the balance of payments. On the external front, the **reopening of the Strait of Hormuz and Brent's retreat from a peak of ~\$128/bbl to the ~\$80 range materially de-risks India's import bill**, given the economy imports over 85% of its crude, thus keeping **CAD in comfortable territory**. Meanwhile, **equity markets have already priced in a substantial amount of bad news: the Nifty has corrected roughly 5% YTD, leaving Large Caps trading close to fair value**. Taken together, **a resilient growth engine despite external headwinds, an early-stage private capex upcycle, healthy corporate balance sheets, a de-risked energy and currency outlook, and valuations that already reflect a fair degree of caution, we see the balance of risks having shifted sufficiently to justify moving our stance from neutral to aggressive, while retaining our large-cap overweight as the risk-controlled expression of that view.**

Our equity allocation has accordingly pivoted to an aggressive approach. Within equities, we carry an approximate 10% overweight in Large Caps an approximately 6% underweight in Mid Caps and a 4% underweight in Small Caps, consistent with our risk-controlled framework and our preference for capital preservation over beta-seeking in conditions of short-to-medium term volatility. Our **Asset Allocation has now pivoted to a 4% overweight in Equities and balanced out with a 3% underweight in Alternates and 1% underweight stance in Debt.**

Despite prevailing volatility, portfolio positioning has delivered strong results. We **generated an Alpha of 2.69% on an absolute basis, driven primarily by Product Selection Alpha. The portfolio maintained a Beta of 0.49, an Information Ratio of 3.31, and a Downside Capture of 72.76% – collectively reflecting disciplined risk management and effective downside protection relative to the benchmark.**





Key Monitorables:

Crude price trajectory

HIGH

Brent has normalised to ~\$80/bbl after the Hormuz reopening, down sharply from the ~\$128 peak. Sustained levels below \$80 would be imperative for corporate margins; a renewed Gulf disruption remains the key upside risk to inflation, the CAD and the rupee.

CPI inflation trajectory

MEDIUM

Headline CPI rose to 4.38% in June, its sixth straight monthly increase, as fuel pass-through and a summer vegetable spike offset a still-benign core. The RBI's own path has CPI crossing 4% imminently and peaking near 5.9% in Q3 FY27. Monsoon progress and kharif sowing through June-July are the swing factors for H2.

Valuations & Q2 FY27 results

HIGH

Large caps remain the most attractively priced cohort, near fair value. Q2 FY27 commentary on capex, volumes and margins across banks, industrials and consumer names will set the tone for the FY27 earnings revision cycle and guidance; modest downgrades already look priced in.

FII flows, Hawkish Fed & the anti-AI trade

MEDIUM

FPIs remain net sellers, with \$13 bn of FY27 outflows so far on dollar strength, US treasury yield carry and AI-led mega-cap rotation in DM and EMs. India VIX has eased from 18.5 to ~12, and FDI/FAR reforms are absorbing much of the BoP pressure. A durable reversal likely needs crude sustained stabilisation and India's gradual re-rating into the global AI narrative.

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For any further clarifications or assistance or corrections or suggestions, please contact us at siddharth@kilikacapital.com.



THANK YOU

Piyush Sharma

E-Mail: piyush@kilikacapital.com

Harris Lunis

E-Mail: harris@kilikacapital.com

Siddharth Jadeja, CFA

E-Mail: siddharth@kilikacapital.com